SOME "DON'TS" FOR RESEARCH WORKERS*

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1. Don't bite off more than you can chew. Your appetite may exceed your capacity.

2. Don't let methods become stereotyped. In other words, conform the data and treatment to the problem, not to a routine.

3. Don't forget to keep the reader always in view. If you don't, he will get away.

4. Don't allow yourself to get bored on one phase of the work -- jump to another. Research work requires fresh, active brains.

5. Don't get offended by honest criticism. Perhaps it will save your skin later.

6. Don't fall in love with the organization you are studying. You might want a divorce.

7. Don't let your analysis be one-sided. We are supposed to be non-biased.

8. Don't be afraid to be original. Columbus and all great research men have seemed eccentric to the crowd.

9. Don't be too modest. Always strive to make yourself the authority on the subject you attempt to analyze.

10. Don't include extraneous material. The material in a research report should be definitely related to the subject.

11. Don't "talk down" to your readers. They may know enough to resent it.

12. Don't cater to "highbrow" readers. They should be satisfied with concise and well-expressed ideas.

13. Don't be impatient for quick results. It takes time to develop sound conclusions.

14. Don't be too self-satisfied. Discontent implies that your mind has not come to rest.

15. Don't turn in the manuscript until it represents your best work. The editors will still find plenty to do on it.

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Synopsis of talk to be presented for the Marketing Section of the Southern Agricultural Workers' Meeting, Birmingham, Alabama, February 8, 1940.

COOPERATIVE PURCHASING AS A FACTOR IN A DIVERSIFIED SOUTHERN AGRICULTURE

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In presenting this topic for discussion I am going to assume that agriculture in the South is gradually becoming more diversified. Although statistical data are not yet available to indicate just how much progress has been made in this direction during the past decade, general information and observations lead me to feel confident that a wave of diversification is under way in the South. This is a general concomitant of the decreasing significance of cotton in the South's agricultural economy and the wide-spread encouragement that has been given to the substitution of soil-conserving in place of soil-depleting crops, along with other factors such as improvements in transportation and increasing industrialization.

Under the above general assumption, our problem today is to consider how cooperative purchasing may (a) influence, or (b) be influenced by this trend.

(a) How Cooperative Purchasing May Encourage Diversification in Southern Agriculture.

There are two reasons why I believe that cooperative purchasing can materially assist in the sound development of a more diversified southern agriculture. In the first place, efficiently organized and operated cooperative purchasing associations can enable farmers to get the type and quality of supplies which are required for a more diversified agriculture at the lowest possible cost. That is to say, these associations can serve to encourage the rapidity of the development of diversified agriculture by setting up specifications for supplies which may be required in a diversified agricultural program for any region and by reducing costs that may be involved. In the second place, efficiently organized and operated cooperative purchasing associations can provide a very helpful service during the transition period to a more diversified system of agriculture by providing helpful educational information on the proper use and selection of supplies which farmers may not heretofore have had experience in using. In this

way cooperative purchasing associations can become a very effective medium for improving the farm management practices of a region. This educational contribution of cooperative purchasing which is attested by the experience of such large purchasing associations as the G.L.F. and the Eastern States Farmers' Exchange may be even more important to the encouragement of diversification than the direct cash savings which may be obtained.

The problem of the South today is somewhat like the problem that confronted Horace Plunkett about 1890 when he inaugurated the agricultural cooperative movement in Ireland. At that time a program was under way to assist every Irish farmer to own his own farm. Plunkett took the position that this program would be of little value unless there was also a cooperative program which would increase and protect farm profits so that every farmer could continue to own his own farm. Plunkett felt that otherwise these farms would go back into the hands of the large land owners and that the major benefit would be reaped by middlemen. Somewhat the same result might come from diversification in southern agriculture without organized cooperative associations. There would be little benefit from a program of diversification if the prices paid by farmers for supplies used in production ate up most of the benefit that would otherwise come from diversification. This same argument also applies to the importance of developing cooperative marketing associations as a means of marketing to best advantage new products grown under a more diversified type of agriculture.

(b) <u>How Diversification May Influence Cooperative Purchasing Developments.</u>

Under conditions of specialized, or one-crop, farming, supplies required by farmers may be limited largely to fertilizer and seed. As farming becomes more diversified farmers require a much wider range of supplies in the form of greater variety in fertilizer and seed, feeds, various types of farm equipment, fencing, twine, roofing material, etc. Therefore, as the agriculture in an area becomes more diversified there is a need that cooperative purchasing associations become more diversified in the supplies they handle and in the services they render if they are to provide properly the necessary buying service for farmers. I do not wish to suggest here that a cooperative purchasing association should be set up to handle anything that a farmer may require, regardless of its effect on the efficiency with which it can provide the service, but I think we can look forward to a situation when farming becomes diversified, as it is in Indiana, which will require southern cooperative purchasing associations to perform a much wider service similar to the type of service now provided by cooperative purchasing associations in that State. As farming becomes more diversified, therefore, cooperative purchasing associations will need to provide a more general type of supply service.

Furthermore, the process of changing from the present predominant one-crop system farming will require that any purchasing association to be of most service will need to provide education on the use of new supplies, methods of crop production, etc. so that farmers will operate to most general advantage. While county agents, vocational teachers, and other agricultural agencies can provide farmers with much assistance in this direction, there is no gainsaying the fact that no educational device can be more effective or more responsive to farmers' needs than an enlightened cooperative association which has the responsibility of providing a business supply service which will be in accord with the best agricultural thought of the region.

I think we can already see the influence of a growing diversification on some of the cooperative purchasing associations that are now operating in the South. In Virginia and North Carolina cooperative purchasing until a few years ago was confined largely to seed, and to some extent, fertilizer. Within recent years we have seen such organizations as the Southern States Cooperative and the Farmers Cooperative Exchange of North Carolina greatly extend their range of service so that these associations now handle many varieties of feed, seeds and fertilizer, as well as such general items as twine, fencing, paint, gasoline, lubricating oil, etc. This development has not been so marked in States farther south but the same trend and development can be discerned in a number of associations in such States as Florida, Mississippi, Alabama, and Georgia. It may even be said that the experience of these associations demonstrates that cooperative purchasing has both encouraged diversification and has been encouraged by it.

I am also of the opinion that the trend toward diversification will make it essential for cooperative purchasing associations in the South to be set up more and more on a regional or State-wide basis. In this way one wholesale association with the proper kind of local service facilities can center purchasing for widely scattered groups of farmers and thus handle an adequate volume of any supply to assure efficient operation. Furthermore, by pooling the purchasing job of farmers for a region it is possible for farmers to set up an organization with enough volume to employ competent personnel and to provide the various technical services that are required to provide an effective buying service for farmers.

To conclude, I should like to point out that there are two general advantages that would come from a wide-spread development of cooperative purchasing in the South. First, an efficient system of purchasing associations would tend to force competitive agencies to provide a better type of supply service which would react to the benefit of all farmers. This has been the effect of cooperative purchasing associations wherever they have been well established.

In the second place, these associations would do much to encourage thrifty management by farmers in their own farm operations. When farmers set up a cooperative to do a business job for themselves, the operations of this cooperative, in turn, encourages better farm practices on the part of its members. For example, the experience of farmers in working with their own cooperatives which stress the advantages of cash operations has taught many farmers that it is to their advantage to operate their own farms so as to avoid the heavy burden of credit costs.

HOW WEAK CREDIT POLICIES CAN DESTROY FARMERS' COOPERATIVE PURCHASING ASSOCIATIONS 1/

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You will notice that I have taken the liberty of changing the subject of the talk assigned to me from "A Report of Cooperative Successes and Failures Through the Handling of Credit and Credit Policies" so that it now reads, "How Weak Credit Policies Can Destroy Farmers' Cooperative Purchasing Associations." I have done this because most of the speakers who are to follow in this session no doubt will explain how proper administration of credit has enabled their associations to be successful. In my talk I should prefer to consider the consequences of poor administration of credit by centering attention on the experience of two associations that went on the rocks largely because of credit weakness. I think that a consideration of the experience of these two associations will bring out clearly the importance to an association of having a sound credit policy.

As a background for our post mortem examination of these two associations I should like first to consider briefly why a sound credit program is essential to cooperative success. This is true because:

(A) A weak credit program results in prohibitive costs in the form of bookkeeping cost, time of personnel, supply and postage expense, interest on outstanding receivables, and bad debt losses. Our credit studies have indicated that credit costs for associations with weak credit policies often amount to 10 cents per dollar of credit sales while the average credit cost for such associations is about 5 cents for every dollar of credit sales. Such costs, caused by credit, are a heavy burden on an association.

(B) In the second place, a weak credit program imposes many burdens on an association which are apt to destroy its operating efficiency. Take for example the matter of working capital. If an association's current assets are largely in the form of receivables, even though the accounts are collectible, its capital is scattered among its patrons rather than available for use in carrying on the business of the association. Such associations often

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1/ Talk given at the Service Cooperative Conference at the Twenty-First Annual Convention of the American Farm Bureau Federation, at Chicago, Illinois, December 4, 1939.

have great difficulty in borrowing money and if they are able to borrow they may have to pay higher rates of interest or secure loans on the security of their fixed assets. Such associations with nonliquid working capital are oftentimes not in position to take advantage of good buying offers with the result that the cost of supplies which they distribute may be considerably increased. Furthermore, the management of an association where a large part of its current assets are in the form of receivables is often handicapped by a bad psychological condition. If the manager and board of directors are continuously worried about collecting outstanding receivables, they cannot be in a good frame of mind for developing new business. The worry cost of credit is among the highest of all credit costs, for over-extended credit is apt to kill initiative and make the management irritable - which are poor qualities in management.

(C) Finally, a weak credit program saps membership satisfaction. In fact, an association with a weak credit program generally has poor membership support. Where members do not pay their bills promptly, or where they owe their association large sums of money, a poor membership condition is bound to result for, as a general thing, people do not like their creditors even if their creditor is a cooperative association. Furthermore, the unwise extension of credit and weakness in collection is apt to arouse membership dissatisfaction because of the difficulty of administering credit on a basis which is fair to all. If farmer "A" is inclined to pay cash or pay his obligations promptly, he is not going to look with favor on his association granting credit to farmer "B" who, in farmer "A's" estimation, may either be a dead beat or one who does not feel any responsibility for paying his obligations promptly. On the other hand, if an association has a sound policy on credit where a farmer knows that he is being treated like every other farmer and can therefore expect no extra credit favor, he will look upon this as one of the strongest and best features of his association and this will increase his loyalty to his association.

Post Mortems on Two Associations Where Weak Credit Policies Resulted in Failure. 2/

In order to show how an association may be ruined by credit, let us make post mortem examinations of two actual associations which were forced to liquidate largely because of poor credit administration.

2/ Appreciation is here expressed to Mr. Dorwin Scott, Cooperative Bank Coordinator, Farm Credit Administration, for helpful assistance in the preparation of this section. The figures here used have been slightly adjusted from actual figures so that they will not reveal the identity of the associations.

Association "X": The experience of Association "X", a petroleum cooperative association in a Corn Belt state, shows what happens to an association with weak credit administration. This association granted credit on a conservative basis until 1936. In that year the association loosened up on credit with the result that receivables more than doubled during the year, although sales volume showed little change. The following figures show how the receivables stayed up in 1937 and 1938 even though sales fell off:

Year	Sales	Receivables at end of year	Receivables as percent of sales	Net income or loss
1935	$45,691.80	$3,633.91	8	$ -261.20
1936	48,419.80	6,755.10	14	-71.68
1937	33,069.30	6,548.30	20	-1,954.88
1938	25,382.50	5,598.65	22	-1,361.62

It is significant that the percentage of receivables at the end of the year to sales increased from 8 percent in 1935 to 14 percent in 1936, 20 percent in 1937, and 22 percent in 1938. You will also notice that the net loss of this association was modest both in 1935 and 1936 but significant in both 1937 and 1938. It does not take a detective to see that the increasing burden of receivables for this association was probably the "straw that broke the camel's back." Without question, this association could have gradually developed strength and continued in operation if it had not been for the effect of its poor credit policy.

Now let us examine the changes in the condition of this association, as shown by the balance sheets on December 31, 1935, and on December 31, 1938. (Table I) A comparison of these balance sheets clearly shows how the liquidity of Association "X" was reduced in the 3-year period.

Table I. Comparison of Balance Sheet of Association "X" at End of 1935 and End of 1938.

	12/31/35		12/31/38		Increase or Decrease	
	Amount	As % of Total Assets	Amount	As % of Total Assets	Amount	%
Cash and Inventory	$ 3,149.77	26	$ 2,046.63	14	$-1,103.14	-35
Receivables (Net)	3,633.91	30	5,598.65	39	1,964.74	54
Fixed Assets	5,102.26	41	5,789.57	40	687.31	13
Other Assets	423.50	3	1,017.63	7	594.13	140
Total Assets	$12,309.44	100	$14,452.48	100	$ 2,143.04	17
Current Liabilities	$ 3,722.00	30	$ 6,849.41	47	$ 3,127.41	84
Fixed Liabilities	5,735.69	47	10,354.51	72	4,618.82	81
Total Liabilities	$ 9,457.69	77	$17,203.92	119	$ 7,746.23	82
Net Worth	$ 2,851.75	23	$-2,751.44	-19	$-5,603.19	-196

I would like to stress a few facts which are shown in the above comparison. You will observe that cash plus inventory decreased 35 percent with the result that this item represented only 14 percent of total assets on December 31, 1938, as compared with 26 percent on December 31, 1935. On the other hand, the receivables (net) increased by 54 percent with the result that they represented 39 percent of total assets on December 31, 1938, as compared with 30 percent at the end of 1935.

Turning to the liabilities, you will notice that with the deterioration in the liquidity of the assets, current liabilities increased by 84 percent so that they represented 47 percent of total assets at the end of 1938, as compared with 30 percent in 1935, while fixed liabilities increased by 81 percent and represented 72 percent of total assets in 1938 as compared with 47 percent at the end of 1935. With this general increase in both current and fixed liabilities, there was a decrease in the equity of members, as shown by the net worth, of 196 percent. As a result, this item which represented 23 percent of total assets at the end of 1935 had been entirely wiped out and a loss incurred to the extent of 19 percent of its total assets by the end of 1938.

Furthermore, the actual condition of the association at the end of 1938 was much worse than the condition as shown by the figures in the balance sheet. Even though the receivables are given as "net" in the balance sheet after substantial amounts had been charged off as bad debts - $1,500 in one year - an outside audit revealed that even with these deductions almost half of the receivables shown on the balance sheet on December 31, 1938, were not collectible.

It is also significant that over $1,000 of the net receivables represented amounts due from three employees of the association. Furthermore, the pressure on the association was even greater than is indicated by the liabilities, since a large proportion of the fixed liabilities were in reality more current than fixed.

The condition of the balance sheet at the end of 1938 thus makes it clear that the association was not in position to continue without reorganization and that credit played an important role in getting the association into this condition. However, when the association was forced to reorganize, the association's difficulties were blamed on lack of membership support and inefficient management. While it would be difficult to disagree with these charges, for the inefficient management and poor membership support are clearly indicated by the changes in the financial statements, it must be admitted that the factor that made impossible the continuance of the association without reorganization was due to the heavy loss which was largely caused by the expense of credit operations and the freezing of working capital in receivables.

Before passing on, let us briefly consider the significance of this failure. The farmers who had $2,851.75 invested at the end of 1935 lost all of their equity, while, in addition, creditors had to assume substantial losses. In fact, the actual loss suffered by outside creditors greatly exceeded the amount shown as net loss on the balance sheet. In addition to this monetary loss, the failure of this association dealt a serious blow to the cooperative morale of farmers in this area which cannot be assessed.

You may say that the failure of Association "X" was not due entirely to credit. While I am willing to agree with this view, I contend that if the association had had the proper kind of credit management it would also have had the proper kind of general management which would have resulted in adequate membership support. In other words, I firmly believe that the capacity of a purchasing association to control its credit is a good general barometer of its efficiency.

Association "Y": Now let us analyze another cooperative whose failure can also be largely attributed to poor credit administration. This association was set up late in 1934 in an eastern state to provide cooperative purchasing service on feed, seed, fertilizer, and several other supplies. During its first year of operation it had net sales of $219,537. This association was, however, "volume minded" and to build up volume it used sales pressure and kept gross margins to a minimum. Under this policy, as the following figures show, its sales "boomed":

Year	Sales	Receivables at end of year	Receivables as percent of sales	Net income or loss
1935	$219,537.00	$13,642.20	6	$ 114.30
1936	423,238.50	24,884.10	6	4,010.40
1937	617,096.70	36,580.50	6	7,915.50
1938	564,490.80	41,652.90	7	-33,381.90

The above figures show, however, that volume does not tell the whole story, for receivables expanded at least as rapidly as sales, while the net loss in 1938 was almost three times as great as the net income in all three of the preceding years.

Before proceeding to analyze the balance sheet, I should like to point out that the effect of credit in causing the failure of Association "Y" is less apparent than in the case of Association "X," although the actual effect of poor credit administration was probably as significant. In the case of Association "Y" the receivables did not get nearly as much out of line as in the case of Association "X," so that it would be quite proper to assume that other factors were primarily responsible for the failure of this association. To a certain extent, this condition can be admitted for this association clearly made the mistake of expanding volume too rapidly on narrow margins and insufficient capital while speculating in inventory and allowing its operating expenses to get entirely out of line. However, in assessing the significance of the factors that caused the failure of this association, it must be remembered that it was the credit condition that was ultimately responsible for the blow-up. If it had not been for its weakened financial condition, because of credit operations, the association might have been able to improve its other methods of operation and weather the storm. This fact is clearly shown by Table II, which indicates the deterioration of this association's financial condition from December 31, 1935, to December 31, 1938.

Table II. Comparison of Balance Sheet of Association "Y" on December 31, 1935, and 1938.

	12/31/35		12/31/38		Increase or Decrease	
	Amount	As % of Total Assets	Amount	As % of Total Assets	Amount	%
Cash and Inventory	$14,465.66	35	$13,231.19	14	$-1,234.47	-9
Receivables (Net)	13,642.20	33	41,652.90	45	28,010.70	205
Fixed Assets	11,470.06	28	32,831.65	36	21,361.59	186
Other Assets	1,558.76	4	4,455.12	5	2,896.36	186
Total Assets	$41,136.68	100	$92,170.86	100	$51,034.18	124
Current Liabilities	$ 7,351.25	18	$59,637.06	65	$52,285.81	711
Fixed Liabilities	13,500.00	33	37,147.20	40	23,647.20	175
Total Liabilities	$20,851.25	51	$96,784.26	105	$75,933.01	364
Net Worth	$20,285.43	49	$-4,613.40	-5	$-24,898.83	-123

In the above balance sheet comparison, you will notice that cash plus inventory represented 35 percent of total assets at the end of 1935 and only 14 percent at the end of 1938, while net receivables increased from 33 percent of total assets to 45 percent. Furthermore, you will notice that while the total assets of this association doubled during these 3 years the proportion of these assets which were current fell from 68 to 59 percent, even though the current assets were much less current in the latter year.

During the same period current liabilities increased from 18 percent of the total assets to 65 percent, while fixed liabilities increased from 33 to 40 percent. Furthermore, you will observe that the net worth of this association of $20,285.43 on December 31, 1938, which represented 49 percent of the total assets, was entirely dissipated by the end of 1938 so that the association then had total liabilities in excess of $4,613.40, or a deficit amounting to 5 percent of the total assets.

Here again, as in the case of Association "X," the balance sheet does not really show how bad off this association was at the end of 1938. For example, on December 31, 1938, almost 50 percent of the receivables shown in the balance sheet were not considered collectible while trade and financial creditors were anxious to be paid immediately because they realized that the association was in a desperate condition. The experience of Association "Y" shows that no matter how big an association may be in sales it must guard

against the burden of receivables that comes from poor credit administration, and it shows that this is true even though an association may have a fairly strong financial position to begin with. The experience of Association "Y" also shows that the effect of poor credit administration may not show up for several years. Association "Y" apparently was in fairly good condition at the end of 1937, but by the end of 1938 its condition could not be remedied except by drastic reorganization which resulted in the loss of all of the investment which farmers had in the association, as well as large amounts which were lost by trade and financial creditors.

Without question, Association "Y" would not have gotten into this serious condition if it had been content with a more modest program of development, coupled with sound credit administration.

In the above post mortem examinations I have endeavored to show how poor credit policy ultimately resulted in the destruction of these associations. Both of these associations operated on the principle that they could eat their cake and have it too. They not only extended credit too freely, but they did not use due care in granting it or in collecting accounts. The result of this policy could have been forecast in advance.

It seems to me that our autopsy of these two associations shows that a weak credit policy can be likened to a simple case of influenza in an individual which, if not cared for, may gradually develop into a fatal case of double pneumonia. I hope that closing this paper on this lugubrious note may have some slight effect in causing associations to adopt the old adage in their credit operations: "An ounce of prevention is worth a pound of cure."

Essentials for Building a Sound Credit Policy:

To sum up, I should like to give my views on the essential elements of a sound credit policy in one sentence:

A sound credit policy, like any other tool, has to be (1) carefully designed, (2) honestly built, and, then, (3) properly maintained, if it is to give continuing satisfaction.

I believe that the talks which are to follow will demonstrate that this statement is true.

PERTINENT PROBLEMS OF FARMERS' PURCHASING ASSOCIATIONS 1/

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The present uncertainty in economic conditions caused by the war in Europe raises a number of important problems for farmers' cooperative purchasing associations. Now is the time for purchasing associations to consider these problems and to formulate policies to meet them.

Before going further I should like to point out that in varying degree all forms of business are economically affected by the war in Europe and that it is not possible to forecast just how these conditions will affect American industry and particularly American agriculture. Cooperative purchasing associations must therefore make their business plans without knowing what the developments of this abnormal period may be and without knowing whether this period may be of long or short duration.

Today the situation is somewhat similar to the one which prevailed in 1914-15 in that business has to operate under conditions of great uncertainty. In fact many economists are inclined to feel that there will be a tendency during the forthcoming period for basic commodity prices to gradually rise as they did after the outbreak of the war in 1914, particularly since recent general price levels have been low. It would, therefore, not be surprising if we had trends in prices somewhat similar to those that characterized the period from 1914 to 1921 especially should the war be of long duration. 2/

1/ Prepared for Stockholders' Meetings of the Columbia Bank for Cooperatives, at Raleigh, N. C. on November 6, 1939; Atlanta, Ga. on November 8, 1939; and Orlando, Fla. on November 10, 1939.

2/ For typical viewpoints of agricultural economists see article by E. J. Working on "War-time Prices" in Illinois Farm Economics for September, published by Department of Agricultural Economics, University of Illinois, and article on "War and the Outlook," in The Farm Outlook for October, published by Iowa State College. Dr. Working points out that "It is not to be expected that prices during the current war will follow just the same course as they did during the World War ... . It is, nevertheless, worthwhile to study price movements during the World War period carefully in order to have a basis for intelligent decision as to the most probable course of prices from time to time during the coming years." Without question, conditions today are in many ways far from similar to those in 1914 and these conditions may become even more different in the months and years to come. Price trends may therefore follow a quite different course. The assumption of this article is that farmers' purchasing associations should safeguard their operations on the contingency of an upward trend of prices.

Table 1.

INDEX NUMBERS OF PRICES PAID BY FARMERS
FOR COMMODITIES USED IN PRODUCTION AND OF PRICES
RECEIVED BY FARMERS FOR FARM PRODUCTS, 1914-1923 1/

Commodities used in production	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923
	(Calendar Years 1910-14 = 100)									
Feed	102	100	130	184	193	211	137	97	123	134
Farm machinery	96	100	107	126	155	161	167	156	142	146
Fertilizer	100	112	120	137	170	182	186	156	129	126
Building materials for other than house	93	102	117	137	161	189	205	156	159	161
Equipment and supplies	99	106	129	156	181	180	189	152	140	136
Seed	99	120	142	149	190	280	152	134	130	142
All commodities used in production	99	104	124	151	174	192	174	141	139	141
Farm products	(Years August 1909 - July 1914 = 100)									
Grains	102	120	126	217	227	233	232	112	106	113
Cotton and cottonseed	85	77	119	187	245	247	248	101	156	216
Fruits	91	82	100	118	172	178	191	157	174	137
Dairy products	102	103	109	135	163	186	198	156	143	159
Chickens and eggs	106	101	116	155	186	209	223	162	141	146
Meat animals	112	104	120	174	203	207	174	109	114	107
All groups of farm products	101	98	118	175	202	213	211	125	132	142

1/ Source: "Agricultural Statistics" 1938 U.S.D.A. pp. 443-444

As a preliminary to our consideration of the problems which are likely to confront cooperative purchasing associations in the months and perhaps years to follow let us briefly examine the trend in prices paid by farmers for supplies used in agricultural production as well as of prices received by farmers for agricultural products for the period from 1914 to 1923. As shown in Table 1, there was a gradual increase in prices paid by farmers for commodities used in farm production from 1914 to 1919 and a rapid decrease in these prices in 1920 and 1921. It is also significant that the prices paid by farmers for certain classes of commodities used in production showed a much greater degree of price fluctuation than others. For example, feed

prices fell from an index number of 211 in 1919 to 137 in 1920 and 97 in 1921, while seed fell from 280 in 1919 to 152 in 1920. It will also be noticed that the index number for prices received by farmers for all farm products increased from 98 in 1915 to 213 in 1919 and after staying at 211 in 1920 fell to 125 in 1921. Moreover, the price index numbers for certain farm products exhibited violent price changes. The index number for grain fell from 232 in 1920 to 112 in 1921, while cotton fell from 248 in 1920 to 101 in 1921. If these index numbers were shown on a monthly rather than a yearly basis a much greater degree of fluctuation would be apparent. An examination of these price index numbers thus suggests that there will be many problems for purchasing associations in the future if the general effect of the present war in Europe is anything like that of the last great war.

Our general question today is to consider how purchasing associations can safely chart their course today so that they will not be upset later by abrupt economic changes. For that reason let us consider several special problems that cooperative purchasing associations should take into account in planning their operations for the immediate future on the assumption that this period probably will be characterized by rising prices. 1/

1. Controlling inventory and credit.

Cooperative purchasing associations during a period of rising prices have a serious problem in avoiding speculation in inventory and in keeping credit under control. During a period of rising prices it is very easy for an association to build up large stocks of goods on the grounds that prices are likely to continue to rise and that it would be smart business procedure to lay in goods before the full effect of the rise occurs. Although this view is a very tempting one the management of cooperative purchasing associations should realize that it is just this speculative philosophy that has often brought failure to cooperative purchasing associations. Many association managers unfortunately are not willing to consider this kind of policy a speculative one for they believe this is just good business foresight as long as they do it. However, an association which builds up its inventory stocks on this theory without recourse to hedging operations is apt to find itself in a very weak economic position when there is an abrupt change in prices, such as might result from an early peace. The experience of the past two months in feed prices shows that nothing can be taken for granted at a time like this for the rise in feed prices which seemed apparent two months ago has at least been arrested. For this reason cooperative purchasing associations at the present time should be very careful to plan their inventory holdings in accordance with the demand of their membership and thus avoid the temptation to try to make a "killing" from an apparently rising market.

1/ These problems are not, however, limited to the present abnormal period. They are constant problems which are aggravated during a period of this type.

Furthermore, during a period of rising prices it is very easy for a cooperative purchasing association to become lax in the extension of credit and collection of accounts. This is one of the greatest dangers from boom conditions no matter how they are brought about. When an association gets into an over extended credit position an abrupt fall in prices is likely to have a disastrous result because it will then be highly difficult to collect outstanding accounts. Too many purchasing associations have granted credit too freely under fairly normal conditions. This would seem to be a good time to hold tight and operate as nearly as possible on a cash basis.

In connection with this problem I would like to refer to the experience of farm purchasing associations in the British Isles during the World War period. These associations thrived during the war and early post war years, and during this period they built up very heavy inventories and extended large amounts of credit. Then all of a sudden prices dropped precipitately. As a result, large numbers of these associations were unable to liquidate their heavy stocks of supplies which they had bought at high prices, except at great loss, and furthermore at this very time they were additionally handicapped because their current assets were largely tied up in accounts receivable. which could not be collected because the farmers were hard pressed by low agricultural prices. As a result, it took several years for many of these British farmers' associations to regain their stability while some of them failed entirely. American cooperative purchasing associations had the same general experience during the last war and there is a great danger that many may make the same mistake if similar conditions arise.

In this connection the danger of an expansion in inventory and laxness in credit as a result of the war in Europe has been generally recognized by economists. For illustration, let me quote briefly from a very competent article by Marcus Nadler, Professor of Finance, New York University, 1/ entitled, "This War is Different, and United States Business has Fewer Guesses to Make."

> "A war, although accompanied by an improvement in business activity, brings in its wake a great many uncertainties. ..... Under these circumstances, for business men to adopt a policy of speculating in raw materials through a large accumulation of inventories, is, therefore, obviously dangerous. Furthermore, most business people, if they were to analyze their transactions during the last two decades, would find that on the whole the losses incurred from inventory speculation were greater than the profits obtained from speculation . ...

1/ September 22, 1939 issue of Printers' Ink.

"In periods when business activity increases and there is a great demand for commodities, many business people are inclined to sell to all those willing to pay a higher price, regardless of whether the purchaser is entitled to more credit. The philosophy underneath it is that in a rising market the credit position of everyone is improved. This, however, is a dangerous policy. If for some reason a decline in commodities should set in, it is usually the financially weak debtor who seeks a settlement first."

These views of Professor Nadler suggest that cooperative purchasing associations as well as business concerns may need to keep their feet on the ground and resist the temptation which may accompany the change in economic conditions to speculate in inventory and to grant credit too freely.

2. Safeguarding financial condition.

During the present period of uncertainty purchasing associations will have a serious problem in safeguarding a strong financial condition. Professor Nadler pointed out this danger, in his article above quoted:

"In periods of uncertainty it is highly inadvisable to freeze one's capital excessively in inventories and plant expansion, because one loses thereby the ability of making rapid changes either way."

Obviously, the control of inventory and the control of credit will greatly help associations in this regard by keeping their current assets liquid. However, in addition to this, associations will need to resist the temptation to expand fixed assets in the form of facilities, especially without adequate membership equity. In other words, expansion should come out of savings or from investments by members; and should not be largely based on borrowings, which might tie up the working capital of the association.

3. Observing sound pricing and reserve policies.

When prices trend upward it is difficult for purchasing associations to follow sound pricing and reserve policies. The temptation then arises to set retail prices too low in order to build up or maintain volume with the result that margins become inadequate to accumulate reserves for the protection of the association in case of an unpredictable fall in prices. By maintaining retail prices in line with the trend of competitive retail prices during a period of rising prices an association will be in better position to build up reserves that can be used to keep its prices in line with the trend of retail prices during a falling price period.

This policy of keeping prices in line with competitive prices may be expected to result in fairly large savings during a period of price increase for retail dealers in general will be inclined to push up retail prices in order to make substantial profits. As a result, an association that follows this price policy may be tempted to return these savings to patrons in the form of patronage dividends. An association should, however, refrain from paying all of these savings out immediately in dividends. These savings are abnormal and they should be held in trust by the association to protect it from an abrupt fall in prices which may later occur. If too high a rate of dividend is paid an association may not be able to maintain this rate of dividend later when margins narrow. A high rate of dividend paid in an abnormal period may thus cause members to complain later when prices fall and this rate of dividend cannot be continued.

It would thus seem to be sound reserve policy to use savings for strengthening the association rather than endeavor to operate currently as near cost prices as possible. This method is absolutely fair to all concerned for it is based on the idea that a cooperative purchasing association should endeavor to serve farmers over a period of time in a sound manner. The protection of the farmer by his institution is as important as his immediate economic gains from it. It should always be borne in mind that the net worth of an association represents the undistributed value of members' ownership in their own enterprise which is retained for carrying out the objectives of the association. It is often to the members' interest to conserve net savings by retaining them in the form of net worth instead of returning such savings immediately to the individual members.

4. Avoiding overexpansion in services.

If the trend of prices continues generally upward many members will no doubt demand that their associations handle anything they require regardless of the ability of their associations to render the added lines of service without disturbing their ability to provide a good standard of service on their regular lines. While full consideration should be given to any demand of members for extension of service it is doubtful whether an association should disturb its regular operations because of temporary benefit which seems apparent during an abnormal period. Any change in method of operations brought about by rapid expansion should be based upon a careful study of the need for the change when conditions return to normal.

5. Controlling expenses.

As a general thing it may be said that any general price increase inclines an association toward carelessness. It is easy during a period of rising prices to unconsciously build up payroll and other expenses without having these increases show up in a significant reduction in net income. During a period of price uncertainty the management of

an association should therefore scrutinize all costs carefully to see that full value is derived from the expenditure and to see that the expense budget does not get so large or inflexible that it cannot be rapidly curtailed with an adverse turn in economic conditions.

6. Building good personnel.

The general personnel problem of cooperative purchasing associations is also apt to be aggravated by rising prices which are reflected sooner or later in higher wage rates. If wage rates tend to increase throughout the country cooperative purchasing associations may find it more difficult to retain and secure capable managers and employees. The danger that good men will be drawn off into other employment will greatly increase. For that reason, cooperative purchasing associations should do everything they can to build up staff loyalty so that their ability to give good service will not be impaired.

To insure protection on this problem purchasing associations must give attention to methods of compensation so that employees have an incentive for effective work. If an association pays a fair standard of wages this will tend to develop a loyal staff that will stand by an association and thus reduce labor turnover. It should also be remembered that men do not work for money alone. They also work for the pleasure they get out of the work itself and for recognition. Any good personnel policy must give in addition to fair wages recognition for individual accomplishments which make for team work.

7. Protecting quality.

During the present uncertain conditions purchasing associations may also have a problem in protecting quality standards. It may become difficult to obtain supplies of the best quality with the result that cooperative managements will be tempted to go the easy way and cut the corners on quality standards with the idea that these standards can be rebuilt later. While it may be difficult for an association to maintain quality standards during an abnormal period, every effort should be made to do so. Furthermore, if it should become necessary to reduce quality standards the members should be kept informed so that they will not expect performance as good as that which they get from supplies of higher quality. In the final analysis, effectiveness of an association's quality program depends upon its ability to provide a good standard of supplies during a period of stress since this proves to its members that it is thinking in terms of their interests. A quality program of this kind will build many friends for an association who will hold to the association during thick and thin.

8. Maintaining membership support.

A period of price uncertainty is apt to weaken membership support. It is easy during a period of rising prices to overlook the necessity of good membership relations and to place too much stress on volume building and net income. The membership problem may not seem to be of customary importance for many new members may temporarily join the association to escape profiteering and thus tend to swell the volume of business. However, this very condition may bring about a weakening in the fibre of the association for many of these new members may join the association because of temporary benefit without a full understanding of the responsibilities that are entailed in cooperative membership. Later, when the inevitable price recession occurs, the association may find that it has a case of membership anemia or "thin blood," in that many of the members, especially the newer ones, will not greatly react to calls upon their loyalty. For that reason an association should keep members informed and aware of the problems which confront their association when prices are rising so that they can look forward to strong membership support later on when the going is not so good. At this point I would like to again quote Professor Nadler who maintains that business firms should be very careful about customer relationships during a period of this kind. He says:

> "Customer relationships, which form an important part of modern business, are likely to be overlooked or neglected. Since the seller of a commodity does not during a period of improvement and in a rising market have any difficulty in finding an outlet for his commodities, he is apt to neglect his old and trusted customers. ... This is a wrong policy because a war does not last forever. Every major war was followed by a period of deflation and a buyers' market. Customer relationships, therefore, are of greater importance today than they are under normal conditions."

9. Working with other cooperatives.

In many parts of the country there is little coordination of cooperative purchasing activity, and cooperative associations are in competition with each other as well as with private agencies. There is danger that it will be even more difficult for cooperatives to work together harmoniously during a period of rapid price fluctuations. In fact, certain cooperatives may endeavor to expand their operations in the operating territory of other associations and others may tend to shop around for supplies and thus give less support to federated wholesale associations. Since there is a great permanent need for increasing coordination between cooperatives and regional cooperative purchasing systems it would be unfortunate if this movement were retarded rather than expanded at this time.

Summary

To sum up, I should like to point out that the above problems will not cause any setback to cooperative purchasing associations if conservative policies are followed. In fact, the very uncertainty of the present period should stimulate sound cooperative purchasing associations to prove their worth to their farmer members by protecting them with a stable source of supplies of good quality fairly priced. Our past experience, however, indicates that there will be a general setback to those associations that take a shortsighted point of view on these matters. It is true that such associations may enjoy a temporary boom during a period of rising prices, but they will not have the satisfaction that comes from building up a strong organization which is able to provide a long time service for agriculture.

We have made great strides forward in the development of cooperative purchasing associations during the past twenty years. The challenge of the present is whether these associations can hold the ground gained and continue a sound normal growth for the general welfare of farmers.

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Remarks of Joseph G. Knapp, Senior Agricultural Economist, Farm Credit Administration, broadcast from Station WMAL, Washington, D. C., over the National Broadcasting Company's network of stations during the Farm and Home Hour, Thursday, October 10, 1935.

TWO EXAMPLES OF SUCCESSFUL LARGE SCALE PURCHASING ASSOCIATIONS

Good afternoon, folks. In my recent talks on the cooperative purchasing of farm supplies I told you about the rise of large-scale associations. Today let's look at two highly successful organizations of this type--the G.L.F. and the Eastern States Farmers' Exchange. Both of these associations are less than twenty years old, but they have proved that farm supply associations operating on sound business principles can furnish essential supplies and services for their farmer patrons at reasonable prices.

The G.L.F. was set up in 1922 by the New York State Grange, the Dairymen's League, and the New York State Farm Bureau Federation. Its full name, Cooperative Grange League Federation Exchange, Incorporated, links together the names of these three sponsor organizations. Today it serves about 100,000 farmers in New York State, New Jersey, and northern Pennsylvania. For the fiscal year just passed, its business in such farm supplies as feed, fertilizer, seed, paint, and oil, amounted to twenty-four million dollars in wholesale values.

G.L.F. farmer patrons obtain supplies from approximately 600 local distributing outlets. The backbone of the G.L.F. distributing program is a system of 140 G.L.F. service stores which are directly managed and controlled by the G.L.F. in cooperation with local advisory committees. These stores have their accounting work done for them at the central office at a cost of one-half cent per dollar of sales. To give you an idea of the high stage of operating efficiency of these stores--of every dollar spent for feed by farmers at a typical store last year, ninety-four cents went for actual feed cost, five cents for management, warehouse, and other expense, leaving one cent net margin. Last year farmers bought over sixteen million dollars worth of farm supplies through these service stores. Farmers who are not located near service stores can obtain supplies from forty local cooperative associations and four hundred regular dealers who handle G.L.F. supplies on an agreed upon price basis.

G.L.F. manufactures most of the supplies handled, so that today the G.L.F. system reaches from the sources of raw material to the farmer-consumer. Its feed mills are located at Buffalo, Albany, and Baltimore. The main G.L.F. fertilizer plant is in Baltimore, but there are also three up-state New York fertilizer plants located to take advantage of transportation rates. The G.L.F. also has its own paint plant. Last year G.L.F. shipments of all supplies amounted to over seven hundred thousand tons.

About five years ago the G.L.F. decided that cooperative marketing and cooperative purchasing could be economically combined, so it set up a separate marketing corporation. Last year this subsidiary marketed more than two million dollars worth of eggs, beans, and other products. The use of such subsidiary corporations for performing separate functions—such as manufacturing, marketing, management, and credit—is a unique feature of G.L.F. operation.

G.L.F. in a dozen years has thus built up a gigantic cooperative purchasing and marketing association which handles a significant part of the farm supply business in its territory. G.L.F. farmers today own a business with total assets amounting to five and one-half million dollars, and its good-will value cannot be estimated.

The Eastern States Farmers' Exchange, with headquarters in Springfield, Massachusetts, is another outstanding large-scale cooperative purchasing association. This association furnishes feed, seed, fertilizer, paints, oil, and other supplies to more than fifty thousand farmer members in New England, Delaware, Pennsylvania (except for the northern counties served by the G.L.F.), and part of Maryland. Last year these farmers bought through it more than twelve million dollars worth of supplies. This organization—set up to help farmers help themselves—has had a regular growth since it was started in 1918.

The Eastern States Farmers' Exchange has used very effectively the "car-door" system of local distribution. Under this "car-door" plan, farmer members obtain supplies through some one thousand local representatives who are either farmers or local exchanges. These local representatives combine the farmers' orders and send them to the central office. The central office, in turn, notifies the manufacturing and assembling plant, which makes up the carloads for delivery back to the local representatives. The local representatives then distribute the supplies on a cash basis to farmer members. Usually a wide assortment of items is shipped in each car. For example, a car generally contains supplies for about 60 farmers, and on the average there are thirty different kinds of feed and other supplies in each car. Each local representative has a regular delivery date so that there is a continuous flow of Eastern States supplies from the plant to farmer members. This system of "car-door" distribution keeps local handling charges down to a minimum, because there is no local warehouse expense. The Eastern States Farmers' Exchange also has sixteen regional warehouses to serve farmers who need supplies between regular shipments.

The Eastern States Farmers' Exchange keeps a complete record of each member's business so that patronage dividends may be distributed annually. During its period of operation, the Eastern States Farmers' Exchange has built up a net worth amounting to over one and a quarter million dollars, which is represented by its large feed manufacturing plant in Buffalo, its fertilizer plants at Boston and Wilmington, and other extensive properties. Moreover, since 1925 it has paid out patronage dividends amounting to six hundred and thirty-five thousand dollars.

The keynotes of both the Eastern States Farmers' Exchange and the G.L.F. have been <u>high quality</u> and <u>efficiency.</u> Farmers know that these organizations provide dependable supplies—manufactured with their needs in mind—at the lowest possible price.

I wish I had time today to tell you more about these organizations, but if you are interested, write to the Office of Information of the Farm Credit Administration, Washington, D. C., for a copy of the new bulletin on "Cooperative Purchasing of Farm Supplies," which will give you further information on these and other purchasing associations. Well, time's up. I hope these facts will prove useful to you.

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PRODUCER-MARKETING COOPERATIVES IN THE UNITED STATES

By Joseph G. Knapp, Principal Agricultural Economist, Cooperative Research and Service Division, Farm Credit Administration, USDA, Washington, D. C., before the Conference on International Cooperative Reconstruction, January 19, 1944, Washington, D. C.

In this talk I shall endeavor to draw a portrait of the cooperative marketing movement of American farmers as of the present date. This portrait will necessarily show the extent to which cooperative marketing and cooperative purchasing are interrelated in the field of American agriculture, and indicate to some extent the significance of these organizations in the economic and social life of the Nation.

Extent of cooperative purchasing and marketing

Recent information assembled by the Cooperative Research and Service Division for the marketing season 1942-43 indicates that there are 10,450 farmers' cooperative associations which can be classified as either marketing or purchasing associations.

In those records, farmers' cooperative associations are classified as marketing or purchasing associations, depending upon whether over 50 percent of their dollar volume of business is represented either by products cooperatively marketed or by supplies cooperatively purchased. There are thus many associations classified as marketing associations which perform a purchasing service and many associations classified as purchasing associations which perform a cooperative marketing service.

These 10,450 cooperative marketing and purchasing associations represent an estimated combined membership of 3,850,000. When allowance

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Appreciation for generous assistance in the preparation of this address is herewith expressed to my colleagues in the Cooperative Research and Service Division. The statistical information has been largely derived from a forthcoming miscellaneous report of the Farm Credit Administration, "Farmers' Marketing and Purchasing Associations, 1942-43," by Grace Wanstall and R. H. Elsworth.

is made for those who are members of one or more of these associations the total net number of individuals who are represented on the membership rolls of these associations probably would not exceed 1,500,000, or about one farmer in four. 1/ However, a much larger number of farmers are participants in some cooperative activity other than marketing or purchasing. For example, it is estimated that about 3,000,000 farmers are members of farmers' mutual fire insurance companies; 1,205,000 of electrification associations; 330,000 of mutual telephone companies; and 177,000 of mutual irrigation companies. There are also thousands more who are members of other cooperative service associations not here enumerated. On the basis of such information it is not unreasonable to assume that at least three farmers in every five are participants in some form of agricultural cooperative activity.

The combined business volume of the 10,450 marketing and purchasing associations for the last marketing season amounted to $3,780,000,000. 2/ After making adjustments for the purchasing business performed by marketing associations and the marketing business performed by purchasing associations, Wanstall and Elsworth estimate that the volume of products cooperatively marketed amounted to $3,030,000,000, and the volume of supplies cooperatively purchased to approximately $750,000,000. The value of products cooperatively marketed is thus about four times the value of supplies cooperatively purchased.

As for the location of these 10,450 marketing and purchasing associations, it is of interest that 6,071 or some 58 percent of them were

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1/ This estimate is based upon information gathered in the last Federal census. In 1939 there were 827,000 farmers who reported that they marketed cooperatively, while 744,000 reported that they purchased cooperatively. The number of farmers who reported that they either purchased or marketed cooperatively was 1,043,000. On the basis of actual records of cooperative associations it is believed that these census figures considerably underestimated the number of farmers who engaged in cooperative marketing and purchasing during the year of the census. However, it is believed that these figures give a good indication of the proportion of those who engaged in either activity. On the assumption that the number of net members of cooperative marketing associations is now about 1,200,000 and that the number of net members of cooperative purchasing associations is now about one million it seems fair to assume that at least 1,500,000 are net members of either marketing or purchasing associations, or both.

2/ The estimated business for these associations records the total value of business reported by cooperative associations whether local or regional. However, where two or more agencies were involved in consummation of the same sale, the amount of the sale was credited to each in proportion to services rendered.

located in 10 States. Their location is shown in Figure 1. 3/

The ten leading States, arranged according to the value of their combined cooperative marketing and purchasing business, were:

State	Number of associations 4/	Estimated business	
		$1,000	Percent
California	478	391,760	10.4
Minnesota	1,399	336,500	8.9
Illinois	628	282,740	7.5
New York	379	235,270	6.2
Iowa	760	210,620	5.6
Wisconsin	1,105	202,940	5.4
Ohio	309	179,740	4.7
Missouri	328	147,260	3.9
Texas	481	141,840	3.7
Indiana	204	129,320	3.4
Total for ten States	6,071	2,257,990	59.7
Total for Nation	10,450	3,780,000	100.0

Now, I wish to describe cooperative marketing as it relates to agricultural commodity groups.

Dairy products

There are approximately 2,369 cooperatives in the United States which market dairy products. Their combined membership is 710,000, and their estimated volume of business for the marketing season 1942-43 was 950 million dollars.

The great majority of the dairy cooperative associations are local cooperative creameries and cheese plants located principally in the important dairy States of Minnesota, Wisconsin, and Iowa. Here it is of interest that about 73 percent of all butter produced commercially in Minnesota - our largest butter-producing State - is made in cooperative plants, and that for the Nation as a whole the percentage is about 40 percent. Many of these associations are federated in such large regional sales and service agencies as the Land O'Lakes Creameries, Inc. (Minneapolis, Minnesota), the Wisconsin Cheese Producers Cooperative (Plymouth, Wisconsin), and the Iowa State Brand Creameries, Inc. (Mason City, Iowa). Another large regional federation of the same type which has local member associations in a number of western States is the Challenge Creamery and Butter Association (Los Angeles, California).

3/ The charts referred to in this talk are not herewith included.

4/ Each association and the estimated business for each association included in these totals is credited to the State in which the association has its headquarters.

The main activity of another large bloc of dairy marketing cooperative associations is price bargaining. There are about 240 associations of this type--located in most urban centers. They serve as collective bargaining agents for milk producers in the tributary milk sheds in negotiating price settlements with milk distributors. Some of these associations take title to the milk while others are more strictly agency associations. For example, the Maryland and Virginia Milk Producers Association, Inc., here in Washington, D. C., takes title to the milk of its producer members, while the Interstate Milk Producers Cooperative at Philadelphia simply represents its members in arranging price settlements. These associations of the strictly bargaining type, however, perform many functions in addition to price negotiation such as encouragement of high quality in milk production and better adjustment of milk supplies to market needs.

Another group of fluid milk marketing associations engage in processing operations along with price bargaining. Good illustrations of such associations are the Dairymen's League Cooperative Association (New York City) and the Twin City Milk Producers' Association (St. Paul, Minnesota). At least 75 percent of the fluid milk distributed on urban markets now passes through these various types of fluid milk sales agency.

The war has greatly expanded the production of dried milk particularly for military and Lend-Lease uses. It is estimated that about half of the total production now comes from cooperative plants, either of the local creamery or of the marketing and processing types.

Livestock

There are approximately 700 livestock marketing cooperatives having about 600,000 members. During the last marketing season they did an estimated combined business of 595 million dollars.

Livestock marketing associations fall into two main groups; local assembling associations and terminal or regional marketing associations.

The 656 local associations, which are largely found in Minnesota, Wisconsin, Iowa, North Dakota, and Illinois, serve a combined membership of about 50,000 and represent a total estimated business volume of 110 million dollars.

The 42 terminal or regional marketing associations sell livestock to packers and other buyers for their approximately 564,000 livestock producer-members. These regional and terminal cooperatives are the principal handlers of livestock on such markets as Chicago, St. Paul,

Kansas City, Omaha, St. Louis, and Indianapolis. These 42 terminal cooperatives handle about 20 percent of the total volume of livestock marketed through regular public market channels.

Twenty of these associations are banded together as stockholder members of the National Livestock Producers Association with headquarters at Chicago. This overhead organization provides a credit, research, legal, transportation and public relations service for its members, and publishes The National Livestock Producer, a monthly membership publication with a circulation of 150,000.

Wool

There are 134 wool and mohair marketing associations, serving approximately 85,000 members. During the last marketing season these associations had a combined business value estimated at 34 million dollars.

Many of these associations are local in character, while a number, such as the Pacific Wool Growers (Portland) and the Ohio Wool Growers (Columbus), serve considerable areas. The National Wool Marketing Cooperative (Boston, Massachusetts) serves as the marketing and financing agency for 22 member associations widely dispersed throughout the United States. During the past year about 15 percent of the total domestic production of wool was marketed through this organization.

Poultry and eggs

The cooperative marketing of poultry and eggs is the principal function of 166 associations having a combined membership of about 111,000. During the last year the business volume of these associations amounted to approximately 145 million dollars.

The outstanding associations in the marketing of poultry products are the large centralized associations which serve wide areas in the far western States. The largest association of this type is the Washington Cooperative Egg and Poultry Association, whose total business volume during 1942 amounted to $25,884,000. Around their poultry marketing enterprise the members of this association have developed one of the best illustrations of an all-purpose cooperative organization. In addition to marketing eggs and poultry, this association operates a canning department for poultry meats, and an egg-dehydration plant. It also purchases for its members feeds, seeds, fertilizer, poultry and other farm equipment, petroleum and other supplies with a total value in 1942 of over 10 million dollars. Other large associations of this same general type are the Poultry Producers of Central California (San Francisco, California), the Utah Poultry Producers

Cooperative Association (Salt Lake City, Utah), and the Pacific Cooperative Poultry Producers (Portland, Oregon).

In the North Central and Southern States poultry products are not generally handled by specialized commodity type associations, but rather are marketed as a side-line activity by creameries and other local associations. This is typified in the handling of eggs, poultry and turkeys by Land O'Lakes Creameries (Minneapolis, Minnesota).

In the eastern States there are about 50 small cooperative egg and poultry associations of which about half are of the auction type. Representative of these is the Flemington Auction Market Cooperative Association (Flemington, New Jersey). In 1942 this local association sold products valued at $3,303,000.

An extensive egg marketing service is also provided by two large cooperative purchasing associations--the G.L.F. and the Southern States Cooperative. The G.L.F., for example, marketed more than one-half million cases of eggs during its last fiscal year.

The Northwestern Turkey Growers Association (Salt Lake City, Utah) serves as an overhead turkey marketing association for some 30 local and regional associations in the Western States. More than 10 million pounds of dressed turkeys were handled by this association during 1942.

Studies of the Cooperative Research and Service Division indicate that cooperatives market about 6 percent of the eggs and 2 percent of the dried eggs of this country; 2 percent of the chickens; and 17 percent of the turkeys.

Fruits and vegetables

Almost one-third of the 944 fruit and vegetable cooperatives reported operating in the United States during the 1942-43 season are to be found in California. Other States where fruit and vegetable associations are prominent are Florida, Washington, Oregon, Michigan and Colorado. However, fruit and vegetable cooperatives are found wherever these products are grown commercially in significant quantities. The services they perform depend to a considerable degree on the products they handle and their location with reference to consuming markets.

These 944 fruit and vegetable associations have a combined membership of approximately 160,000 individual producers. Their total business was approximately $450,000,000 during the 1942-43 marketing season.

Cooperation in the marketing of fruits and vegetables has had its greatest development in the citrus industry; the volume of citrus

cooperatively marketed during the last marketing season being about 150 million dollars. More than 55 percent of the Nation's total citrus crop is cooperatively marketed, while in California, the home of the cooperatively famous California Fruit Growers Exchange, the percentage is over 80 percent. It may be of interest here that this "Sunkist" federation of some 200 local association has recently celebrated its 50th Anniversary. This premier association among cooperative marketing associations during its past marketing year shipped 81,042 carloads of oranges, lemons, and grapefruit.

In addition to citrus, many other fruits and vegetables are also marketed cooperatively either in fresh or processed form. There are, for example, important associations specializing in the marketing of such fruit crops as apples, peaches, pears, plums, cherries, grapes, strawberries and other berries including cranberries, avocadoes, and olives. In many cases fruits are canned, dehydrated or otherwise processed prior to sale. A well-known association marketing dried fruit, for example, is the California Prune and Apricot Growers Association.

It is of interest that there are now several very successful cooperative wineries through which grape growers, particularly in California, are now marketing their crops.

Potatoes are marketed cooperatively through important associations in many States: Colorado, Maine, Michigan, Idaho, and Florida. There are also many associations marketing other miscellaneous vegetables either in the fresh form or as a canned or dehydrated product.

A Nation-wide sales service for cooperatives handling fruits and vegetables is provided by the American National Cooperative Exchange. The Exchange's membership is made up of some 30 local or regional cooperatives; it handles approximately 35,000 cars annually, and is represented by branch offices or contract-brokers in 170 carlot markets in the United States and Canada.

Grain, dry beans, and rice

According to the records of the Cooperative Research and Service Division there are 2,358 associations marketing grain, dry beans, and rice. Together they now represent about 400,000 members and account for a volume of business (1942-43) of about 700 million dollars.

Most of these associations are local cooperative elevators located in the Dakotas, Kansas, Nebraska, Minnesota, Iowa, and Illinois. It is estimated that at least one-half of all grain is locally marketed through these associations.

A large fraction of the local cooperative elevators in turn are members of 18 regional grain marketing federations which operate on

the principal terminal markets. These 18 regionals together handled about 190 million bushels of grain in the marketing season 1942-43.

The largest regional grain federation is the Farmers Union Grain Terminal Association (St. Paul, Minnesota) which has some 600 member associations located principally in the States of North and South Dakota, Montana and Minnesota. This organization which handled 57 million bushels of grain in 1942-43 is now probably the largest grain marketing organization in the United States.

One of the most interesting regional grain marketing associations is the Union Equity Cooperative Exchange (Enid, Oklahoma). This association serves about 25,000 grain producers in Oklahoma and the North Pan Handle of Texas who are in turn members of 75 cooperative grain elevator associations which are affiliated with the Exchange. This organization operates one of the largest cooperative terminal elevators in the United States, its present capacity being 7,750,000 bushels. Probably none of the regional federations performs a more complete merchandising service, for with its member associations it makes a special effort to deliver to processors the types and qualities of wheat which will meet their special needs. Several years before the war this regional undertook to move wheat direct to British consumers through cooperative channels. Commenting on this experience the general manager recently made the following statement, "The huge shipment moved from Oklahoma was loaded on ships at seaboard and laid down at a cooperative flour mill in Great Britain. There it was baked into bread by a cooperative bakery for its consumer-patrons. When the war is over, such shipments may be commonplace, with all regionals participating."

Reference should here be made to the expansion of cooperative marketing and processing of soybeans occasioned by war demands. In many cases soybeans are marketed through local and terminal associations mentioned above. In about a dozen areas federation of elevators or local associations have constructed soybean oil processing facilities.

The principal cooperatives handling dry beans are located in Michigan and California, the two leading dry bean producing States. The two outstanding dry bean marketing associations are the Michigan Elevator Exchange, which is a State-wide cooperative bean and grain marketing agency, and the California Lima Bean Growers Associations, a federation which markets the bulk of the California lima bean crop.

Cooperative rice marketing associations handle approximately 30 percent of the total United States crop which is grown primarily in Louisiana, Texas, Arkansas, and California. The American Rice

Growers Association (Lake Charles, Louisiana) with member associations in Louisiana and Texas, is the principal association of this type. Other important regional rice associations are the Arkansas Rice Growers Cooperative Association (Stuttgart, Arkansas) and the Rice Growers Association of California (Sacramento, California). Together the rice marketing cooperatives in the last marketing year had a volume of business of approximately 30 million dollars.

Cotton

There are now about 539 cooperative cotton marketing associations with an estimated membership of 235,000 producers. In the past marketing year these associations had a combined volume of business of approximately 167 million dollars. More than 90 percent of these associations are cooperative cotton gins which perform ginning and other local marketing services. The great majority of these associations are found in Texas, Oklahoma, Mississippi and Alabama.

However, regional cotton marketing associations are located throughout the entire South. The oldest and most significant of these is the Staple Cooperative Association (Greenwood, Mississippi) which has a place in cooperative cotton marketing somewhat similar to that of the California Fruit Growers Exchange in the cooperative marketing of fruits. Other significant regional associations are found in North Carolina, Georgia, Oklahoma, Texas, California, and other southern States. The American Cooperative Cotton Association (Memphis, Tennessee) serves several of these regional associations as a national sales organization.

There are also about a dozen cottonseed oil mills operating on a cooperative basis, the oldest of which is the Minter City Oil Mill in Mississippi which was organized as early as 1922. Another significant association of this type is the Farmers Cooperative Oil Mill at El Paso, Texas. In general, these cooperative cottonseed oil mills have been set up as federations to serve a number of cooperative cotton gins. They thus represent an interesting tendency in the integration of marketing operations.

Nuts, sugar, tobacco, and other crops

Cooperatives also play an important role in the marketing of walnuts, almonds, pecans, and peanuts. Outstanding associations in this field are the California Walnut Growers Association (Los Angeles) and the California Almond Growers Exchange (Sacramento, California). Cooperation in the marketing of peanuts has been greatly expanded by the war demand for vegetable oils and there are now several large peanut marketing associations in the southern States.

Sugar cooperatives are of two main types: price bargaining and processing. The price bargaining associations represent sugar beet

producers in negotiating price settlements with sugar beet factories. The National Beet Growers Association (Cheyenne, Wyoming) coordinates associations of this type throughout the Western States. The sugar processing associations are found principally in the heavy cane-sugar producing State of Louisiana.

Tobacco is marketed cooperatively in a number of States although the relative importance of cooperatives in marketing this crop is not great. Illustrative tobacco marketing associations are the Western Dark Fired Tobacco Growers Association (Murray, Kentucky), the Maryland Tobacco Growers Association (Baltimore, Maryland), and the Northern Wisconsin Cooperative Tobacco Pool (Madison, Wisconsin).

Cooperatives are also active in the marketing of many other farm products--honey, maple syrup, flax, various types of seed, furs, bulbs and flowers.

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At this point I wish to present a few charts which show where the 500 principal cooperative marketing associations in the United States are located, and their relative size. All of these associations had business volumes of a million dollars or over in the 1941-42 marketing season. Seventy-one of these had business volumes of from 5 to 10 million dollars, 44 of from 10 to 20 million dollars, and 15 in excess of 20 million dollars. 5/

Cooperative purchasing associations

Although the subject given me was producer-marketing cooperatives, it is necessary to briefly discuss cooperative purchasing associations since many of the purchasing cooperatives are also performing extensive cooperative marketing services.

Records of the Cooperative Research and Service Division classify 2,742 associations as purchasing cooperatives. These were credited with 1,270,000 members and a business volume of $600,000,000 for the 1942-43 crop year. Through such associations farmers obtain feed, seed, fertilizer, petroleum, equipment, and similar materials essential to their farming operations.

The bulk of the purchasing associations serve farmers in local or county areas as shown in Figure 7. Most of these local county associations are in turn federated into about 25 large regional associations which perform wholesale and manufacturing services. 6/ The

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5/ These charts, Nos. 2, 3, 4, 5 and 6, as well as those subsequently referred to are not herein included.

6/ For detailed information for the 17 largest associations of this type see "Handbook on Major Regional Farm Supply Purchasing Cooperatives, 1941 and 1942," F.C.A. Misc. Report No. 67.

largest association of this type, not only in the United States but in the world, is the Cooperative Grange League Federation Exchange--or G.L.F.--(Ithaca, New York) whose total wholesale purchasing volume during 1942-43 amounted to approximately 79 million dollars. In addition, this organization marketed eggs, beans, and other farm products with a value of approximately 13 million dollars. When account is taken of the 50 million dollars worth of supplies distributed at retail through local G.L.F. associations the total volume of G.L.F. managed and financed business amounted to 142 million dollars. The size of this organization--which was formed in 1920--should lay the ghost of the old superstition that farmers cannot work together.

The location of the other large regional purchasing associations is indicated in Figure 8 which shows the location and relative size of the 52 associations which had business volumes of over one million dollars in the 1941-42 marketing season. Of these, 12 had business volumes of from 5 to 10 million dollars, 6 of from 10 to 20 million, and 2 in excess of 20 million dollars.

Many of these are joined together in the following national or super-regional organizations: National Co-operatives, Inc. (Chicago, Illinois), United Cooperatives, Inc. (Alliance, Ohio), The National Farm Machinery Cooperative, Inc. (Shelbyville, Indiana), The National Petroleum Refinery Association (Kansas City, Missouri), The Farm Bureau Milling Company (Hammond, Indiana), Cooperative Mills, Inc. (Richmond, Virginia), Cooperative Fertilizer Service, Inc. (Baltimore, Maryland). There are also many instances where two or more regional associations have found it desirable to jointly carry on certain functions. There is thus a high degree of coordination and integration among cooperative purchasing associations, a condition which has been increased by the special problems resulting from the war. This is emphasized by the fact that practically all of these regional purchasing associations are working together in the National Committee for Farm Production Supplies (Washington, D. C.) which was set up in 1941 to assist farmers' cooperative associations in rendering an effective supply service under war conditions.

Interrelationship of cooperative marketing and purchasing

In this talk I have frequently alluded to the close relationship of cooperative marketing and purchasing. Statistics become more entangled each year, for more and more purchasing service is being performed by marketing associations while more and more marketing service is being performed by purchasing associations. This is shown by an analysis of the records of the Cooperative Research and Service Division. About 55 percent of the associations classified as marketing associations now engage in some cooperative purchasing activity, while about 23 percent of those classified as purchasing

associations perform some cooperative marketing functions. When purchasing and marketing associations are combined, only 33 percent engage exclusively in marketing, and only 21 percent exclusively in purchasing, while 46 percent engage in both marketing and purchasing. In other words, 79 percent of the 10,450 associations classified as farmers' marketing and purchasing associations performed cooperative marketing functions while 67 percent performed cooperative purchasing functions. This relationship is also disclosed in Figure 9 which shows, for the associations which have volumes of business of over one million dollars, those which either engage exclusively in marketing or purchasing and those which perform a combination of marketing and purchasing functions.

Summary

In this talk I have endeavored to portray the cooperative marketing and purchasing activities of American farmers. I have not attempted to trace the historical development of this great movement--which has been largely built on Rochdale principles--nor have I attempted to appraise its broad economic and social significance. I have not mentioned, for example, its accomplishments in quality improvement and in reduction of costs, both in marketing farm products and in distributing farm supplies.

Its extensive development in American agriculture is in itself an indication that large numbers of American farmers have come to look upon their cooperatives as an essential part of their industry. Many lessons have been learned by American farmers in their experience with cooperative marketing and purchasing associations--mostly by trial and error. The most important of these lessons is that cooperation to be successful must be based upon sound principles of organization and operation. It is no panacea, but it is a practical, democratic method of free economic organization which can be usefully employed by groups of individuals to meet common needs.

THE PRESENT PROBLEM OF INVENTORY AND CREDIT CONTROL IN COOPERATIVE PURCHASING ASSOCIATIONS 1/

By
Joseph G. Knapp
Principal Agricultural Economist
Farm Credit Administration

As a background for my remarks let me quote the first paragraph of a report issued last week by the Bureau of Agricultural Economics:

> "Breaking all previous records, the index of prices received by farmers jumped 5 percent during the month ended December 15, to 301 percent of the 1909-14 average. This is 4 percent above the previous high of 289 set in October 1947. Meanwhile, the level of prices paid by farmers, including interest and taxes, reached a new record of 245 percent of the 1910-14 average, breaking the record set the previous month for the tenth time during 1947. The net result of these changes is a parity ratio of 123, still 8 percent below the record of 133 set in October 1946."

It is of interest that the index of prices paid by farmers for all commodities used in production stood at 253 percent of the 1910-14 average and was the highest on record. This was 2 percent above November 15, and 22 percent up from a year ago. The fact that the index of farm production supplies went up 22 percent in the past year is ominous, for prices received by farmers could fall more rapidly than prices of supplies bought, as they did after World War I.

Do these statistics spell prosperity - or simply a high fever? That is the problem that is worrying economists, statesmen, businessmen, and farmers, as well as the general public, and we must grapple with it here today. If all of you are of the opinion that these times can last I might as well stop talking right now.

I know that many of you are sick and tired of being warned about the depression which doesn't arrive, but these conditions show that the present situation is far from normal. I think that we should keep this fact well in mind. Only a fool operates on the theory that happy days can last forever regardless of what he does about it.

In the years since 1940 demand has been strong. Prices have moved upward. During the last year the advance has been spotty. Conditions have been abnormally good. We have benefited by the world's hard luck. Is this the kind of prosperity upon which we can build permanently? Some day other nations will come back into production and it may be sooner than we think.

Supply is also beginning to meet consumer demands although there is a long way to go before their full needs are met. Some commodities are,

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1/ Talk at annual meeting of National Council of Farmer Cooperatives, Chicago, Illinois, January 7, 1948.

however, already in a buyers' market position. Competition is intensifying day by day, and it will not be as easy to make a big showing in the months ahead as it has been in the recent past. The pace is growing stiffer and more and more of the weak are passing off the scene. Those that fail are those that are overweight, poorly nourished, or those which have bad habits. The lower prices just announced by General Electric make one think.

We can't keep prices up by exhortation. The frosting is going off the cake and we might as well admit it.

According to J. A. Livingston, Economic Analyst for a number of leading newspapers, "The forecasters are leery. They're leery of forecasting a drop. Yet, at the same time, they're leery of the boom we are having. They don't quite believe it."

At this time you can still get any kind of economic forecast you want. Even the leading economists give different weights to the facts as they see them. The same thing is true for leading business executives. The Fortune poll of executive opinion, just out, indicates that a good many economists expect economic conditions to improve, but still there is a sizable proportion who feel that a recession hovers over the not-too-distant future. This view was nicely expressed by a business analyst of the New York Times in Sunday's paper. He wrote:

> "When optimistic forecasts are made for business covering the next six months weight is undoubtedly given to the momentum which has been achieved over the last six months. .....
>
> "But mounting prices have been taking the edge off some consumer demand and the shortage of capital resources has been curbing some industrial demand. It is therefore quite possible that the current momentum may carry over for another six months but the question is whether it will persist beyond or even up over that period."

When there is so much uncertainty among leading economists and business executives as to the future it is difficult to be 100 percent optimistic, and it would seem wise for business organizations to play safe as far as possible. The situation reminds me of the man who thinks that he has a stomach ulcer. He goes to five doctors. Two of them declare that he is fit as a fiddle, and that all he is suffering from is psychological jitters. One is of the opinion that it will take time to be sure and suggests a milk diet. The other two are convinced that the patient needs an operation. What is the patient going to do in a situation like that? I will leave the answer to you. I think you will admit that he will at least endeavor to live carefully and watch symptoms closely regardless of whether or not he decides to have the operation.

Personally, my attitude toward the future is hopeful but not too confident. I agree with an economist friend who has been saying for some time that the only thing we can be certain of is the continuation of uncertainty. In my thinking, there may be a bad blizzard - but it may only be a big blow. Since blizzards are uncomfortable it might be a good time to take along your overcoat.

There is evidence on all sides that buyers' resistance is growing. The New York Times of December 28 reports such statements as these from a number of leading department stores scattered throughout the country:

> "Expenses are rising. We all know the gravy period is over but it is possible to live without gravy."
>
> "Ersatz has been entirely eliminated from the retailing vocabulary and improved quality is again a truism."
>
> "In view of the constantly rising prices there will be a decrease in volume unit-wise."
>
> "We are apt to price ourselves out of the market for many consumers."
>
> "The year in retailing will therefore be one of correction and consolidation of position. Chief attention should be given to adjusting and balancing inventories and to restoring normal buying practices."
>
> "The outlook for 1948 therefore seems to me to be one of complete uncertainty. Only a soothsayer can predict when the price structure will crash."

In the same issue of the New York Times there is given the results of a survey made by the National Association of Purchasing Agents. This study found that the top of the latest buying upswing was reached in November. Four factors were cited as likely to affect future business trends: (1) Proposed Government controls; (2) export demand for aid to Europe; (3) new wage demands; (4) Government buying policies. This report concluded with the statement that, "The policy continues to hold inventories at the lowest possible operating level."

Now let's come closer home.

As a basis for this talk I wrote to the managers of several of the leading regional purchasing associations to get their ideas as to the seriousness of the inventory and credit problem either in their own operations or in those of their member associations. I also asked for information on any steps that were being taken at the regional or local level to meet the credit or inventory problem.

There was unanimous agreement that the current inventory and credit problem is a serious one. This is borne out by such comments as the following:

> "You will render a great service to farmers of this country if you can present this problem forceably to them."
>
> "We realize that when prices get as high as they are now they may go higher, but the opportunity of their going lower is very great. ... We are endeavoring to stay on the conservative side while taking care of the needs of our members."

"We believe prices are too high... . We think that our best protection is to have a policy based on this fact."

"I am appalled over the possible and probable losses ahead due to the inventory price decline. ... Nobody is in favor of shooting Santa Claus, and it looks to me like we aren't going to adopt any anti-inflation measures that amount to much. The alternative is to do what we are doing - let the price inflation boom go until it ultimately collapses of its own weight. The collapse will probably be catastrophic."

"We are very definitely experiencing a more difficult collection situation than we have had for some time. Collections from retail outlets are slower and they are finding them slower with their farmer-patrons."

"The inventory and credit problems require vigilance. While we have not as yet been seriously hurt in either respect we have had to sustain some write-downs in our miscellaneous farm supply inventories and we find collections slower and requiring closer follow-up than for some time."

"We are quite conscious of the problems we face and we are aggressively and determinedly doing what we can all along the line. ... Despite all this we shudder to think what is ahead when the bust does come."

"I do not believe that anybody knows when a depression is coming because if the majority of people did know, there would be no depression - so the best we can do is just prepare for the worst."

What can cooperatives do to control inventory and credit in this time of uneasy inflation? The answer is - plenty! They have all kinds of devices to use <u>if they will only use them</u>. If cooperatives allow their inventories and credit to get out of balance they have only themselves to blame. This statement applies to members and directors as well as to managers.

Co-ops cannot afford to ride with the tide. Just because other concerns extend credit freely to build volume, cooperatives cannot wisely do the same thing. Other concerns can be tougher in controlling risks and in collecting accounts. It is harder for a cooperative to regain control if it once lets go of the reins. Business enterprises in general are tightening up, and those that are loosest in their operations will fail whether they are cooperative or non-cooperative in character.

We don't see the big chain grocery concerns giving up their cash basis of operations and going over to a credit basis during a period like this. This is the very period when their cash policy pays them dividends since it enables them to keep costs low and build volume on relatively low prices.

The replies from managers indicate that a variety of detailed methods are being used to control inventory and credit. Some put their faith in certain measures while others try about everything. The following suggestions as to what regionals and locals can do to control inventories and credit are largely based on the tested experience of these associations.

What can regionals do to control inventories?

1. Help locals plan their ordering so that they will not overstock. This means no high pressure selling to member associations. Wholesale cooperatives can't afford to extend credit to their affiliated retail associations to aid them in building up extensive inventories for this policy will soon force them out of business.

2. Keep stock in line with anticipated requirements of locals. Develop a modern perpetual inventory system if you do not have one.

3. Place orders conservatively so as not to take chances. Some of the large cooperatives feel that it is better to be out of a certain item than to buy it on a speculative basis.

4. Aggressively endeavor to remove slow-moving merchandise from stock by placing it with locals or disposing of it in other ways.

5. Get rid of poor quality merchandise by price concessions, special deals, or by junking it.

6. Get locals to place orders in advance and encourage them to make a careful analysis of their needs as a basis for doing so.

7. Keep prices low enough to sustain demand and maintain membership good will. It is easy to lose support in such a period as this.

8. See that member units are kept fully informed on necessity of your inventory control program. Mobilize them behind your policies.

9. Place orders on a current basis - as far as possible on a hand-to-mouth basis. Order smaller quantities more frequently.

10. Keep a close watch on turnover rates for principal supply items and keep merchandise moving at all costs. Maintain charts and records to see if stocks are accumulating faster than sales.

11. Give discounts for taking early delivery so as to reduce storage costs and make possible more careful planning of inventory stock.

12. Follow up on all inventory control measures to see that they are made effective in practice.

13. Provide adequate contingency reserves. As one manager writes, "No matter what we do we are going to suffer some loss when the bubble breaks."

14. Shift risks by hedging on commodities which lend themselves to this kind of protection. As long as prices were trending gradually upward the practice of hedging was discontinued since this precluded inventory gains. Now, with the present uncertain trend, large feed concerns are again making use of hedging facilities.

15. Do not overbuy in order to obtain quantity discounts and don't speculate on special offers.

16. Watch out for most favorable sources of supply so as to be competitive in price or quality.

17. Handle products of known good quality to insure ease of sale and rapid movement.

18. Keep active contact with local associations to serve their needs and to keep them aware of your ability to advantageously serve them. Half of the inventory control problem can be met by aggressive merchandising.

19. Finally, fit your inventory control measures to specific commodities. Certain items like feed and petroleum move rapidly through cooperative facilities. The most serious inventory problems are apt to occur in the case of items which are not regularly purchased such as electric equipment, building supplies, and farm machinery. As economists say, the demand for these commodities is more elastic for consumers can more easily postpone expenditures for them.

What can locals do to control inventory?

Most of the advice given to regionals for controlling inventory also applies to local associations. Special emphasis can be given to the following:

1. Keep careful check of goods in inventory so as to know inventory position at all times. Don't let stocks build up in warehouses, back rooms, attics, or basements. Good housekeeping keeps inventory fresh and active.

2. Eliminate slow-moving, obsolete merchandise by price cuts, special sales, etc. Many local associations have made a special analysis of their inventory to determine the amount of such stock and they have been surprised to see how much junk they had on hand.

3. Get farmers to place orders as far as possible in advance to meet known demands or to economize on storage facilities and use of personnel. This procedure is effectively used by many associations which get orders in advance for fertilizer, oils, etc. Too many associations do not seem to be getting wise to the fact that consumer demands for certain types of equipment and merchandise are gradually being filled.

4. Keep members informed of their responsibility in placing orders in advance so that association can buy to meet their demands.

5. Watch turnover trends for specific items and apply sales pressure on weak spots. Charts can help you see what is happening.

6. Emphasize service to membership so as to build membership loyalty and support. Develop in members the habit of using their association because it provides them with the most efficient service.

7. Determine standards of a balanced inventory so that major needs of members will be reflected.

8. Avoid entering into long commitments for merchandise unless absolutely essential.

9. Keep your working capital as liquid as possible to take advantage of good buying opportunities for fast-moving merchandise.

10. Put slow-moving items on an "order" basis. Do not buy without orders or surveys of "intentions to buy" from members.

11. Safeguard members and eliminate waste by accounting checks and other measures designed to eliminate shrinkage. Shrinkage on petroleum products seems to be giving some associations much concern today.

12. Build up financial reserves against inventory loss.

13. Keep your contacts with farmers. Make them feel that they own the association and are responsible for its success.

What regionals can do to control credit.

1. Require prompt payment from locals on merchandise furnished them. This will compel local associations to keep their own operations tight.

2. Analyze credit position frequently to see that receivables as a percentage of sales is not on the increase. One manager told me recently that a few months ago he watched a local association increase its receivables by a hundred thousand dollars almost over night. The receivable should be carefully aged so that old accounts can be written off and pressure applied to get them collected.

3. Carry on an aggressive publicity program to keep member associations and their members credit-control conscious. Encourage local associations to adopt a standard policy for credit control.

4. Encourage advance ordering by local associations as this enables farmers and local associations to plan their purchases in advance and have money on hand to take care of them. The Eastern States Farmers' Exchange is a strong advocate of this procedure - based on a long record of successful experience.

5. Make a charge for credit accommodation or give discounts for prompt payment so as to make it profitable for member associations to pay cash

within a ten-day period. This method is not recommended by some associations, but others employ it successfully. Make it clear that payment of this charge gives no right to long-term or overly large credit.

6. Place local cooperatives on a C.O.D. basis if their credit position is vulnerable. One regional has been forced to place many of its locals on this basis recently because of their expansion of inventory and receivables.

7. Get local associations to deposit funds with their regional to take care of payments for merchandise as purchased. This practice which has been developed to great advantage by the Indiana Farm Bureau Cooperative Association, and by a number of other associations, gives these organizations an enviable credit position. The Farmers Union Central Exchange is encouraging its member local associations to get their farmer members to pay cash in advance by depositing a fund to meet the cost of their purchases and the idea seems to be taking hold. One member association last spring collected $54,000 in advance payments, and other associations are now trying to beat this record. If all purchasing cooperatives could get their members to follow this plan they could look into the economic fog ahead with confidence.

8. Carry on special training programs with personnel to make them credit-control conscious. All personnel should beware of the high cost of receivables and the danger that can come from weak credit control methods. An association which has a tight program of credit control is one that will have other costs under control, as the measure to which an association can control its credit is a good index of its business efficiency.

9. If the situation calls for it, put a special man on the job to work with the locals in improving their credit position. A regional cannot function effectively if its member associations are themselves weak. If the locals are allowed to get into credit difficulties they will put great pressure on their regional to bail them out. It is better for the regional to help the local association to keep from getting into this situation. Auditing service by the regional can enable it to watch for weak spots.

10. Have a real follow-up collection system. If your terms are cash in ten days, start collecting on the eleventh. Follow up and follow through.

What can locals do to control credit?

Many of the methods of credit control suggested for regionals also apply to local associations.

1. Be firm in resisting demands for credit. A cooperative cannot afford to let itself be used as a charitable institution. If charity is to be given let it be given as charity, not as a business service. If any credit is to be granted put it on a short-time accommodation basis. Do not extend credit under any circumstances for producing a crop. Do not base credit extended on ability to pay now. Will the member be able to pay present debts should times get tough?

2. Have definite understanding of credit terms at time of sale.

3. Require strict settlement so as to encourage farmers to use the P.C.A.'s, credit unions, and local banks if they need credit service. They have a big enough job in providing an effective service on purchasing.

4. Keep a careful watch on receivables. See that accounts do not become past due and see that working capital is not tied up in receivables. Every manager should watch the trend of receivables to sales to see that it is not moving upward. Aging of accounts should be done monthly.

5. Keep members informed on association credit policy and see that policy is enforced on same basis to all. There is no excuse for sloppy credit policies. The credit terms of the cooperative should be as well known as those of Sears Roebuck & Co., and they should be just as closely enforced.

6. Make credit control a matter for consideration at each monthly meeting of the board of directors. The directors should watch credit like a doctor watches a patient's blood pressure. A special credit committee can be helpful here.

7. Make employees personally responsible for credit extended, especially on commission sales. The manager must be held responsible for good overall credit control performance. The directors must firmly back up credit control policies after they are adopted.

8. Do not extend more credit until previous bill is paid.

9. Hold back patronage refund payments on members who are delinquent and apply them on such accounts.

10. Members should be taught that control of credit makes possible gains in volume, low operating costs, and larger savings. Educate members so that they will realize why their association must operate on a cash or near-cash basis if it is to render a really efficient and equitable service. This can be done through posters, letters, post-cards, talks, and in numerous other ways.

In considering this whole problem let us keep firmly in mind that <u>if</u> there is a <u>determination</u> to control inventory and credit half the battle is won. There must be a definite policy for control and it must be enforced. Co-ops must realize that adequate control measures are indispensable to their survival as business institutions in this period of economic uncertainty and they must take steps in keeping with the seriousness of this problem. The means of control are at hand if there is the will to use them.

Another thing - membership education is essential to any kind of control program for a democratic organization. If members are not sympathetic to the needs and objectives of a control program it will break down as prohibition did in the early 30's. On the other hand, if members are loyally behind a control program because they realize that it is their

own program and not one forced upon them by management it will work with little friction. Therefore, I would place real membership education on the economics of successful cooperative operation at the top of the list of measures needed to keep credit or inventories in proper balance.

Co-ops have an advantage in controlling their inventory and credit if they are set up right so as to take advantage of their partnership relationship with their members. In the right kind of cooperative the members will be careful not to weaken the strength of their association for their own selfish personal benefit since they know that their cooperative is a tool to be preserved for use when they most need it.

I would like to give you one more thought on this subject. Co-ops can perform a real national service by helping keep credit and inventories under control in a time of transition such as we are now passing through. Every business organization that operates carefully helps to dampen down the flames of inflation. If all businesses should continue to pile up inventories and loosen the throttle in extending credit disaster could not be far away. The free enterprise system is being challenged to function efficiently and cooperatives as a significant part of the free enterprise system have a special responsibility in this regard.

"As ye sow - so shall ye reap." With self-discipline now the purchasing cooperatives can help stabilize our economic order and do much to gain the gratitude of agriculture and the general public - while preserving their opportunity for extending their services into the more normal future.

THE FUTURE OF COOPERATIVE PURCHASING 1/

By Joseph G. Knapp, Associate Chief
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When I told one of my friends that I was scheduled to give this talk, he remarked, "Fools step in where pollsters fear to tread." I recall that seven years ago, just after Pearl Harbor, at the Atlanta sessions of the American Institute of Cooperation, I went out on a limb and made this statement:

> "While admitting that the future of cooperative purchasing is clouded by present uncertainties, I boldly believe that the force of the rise has not been spent and that the next twenty years will see an expansion and intensification of cooperative purchasing by farmers that will dwarf the noteworthy achievements of the past twenty years."

In 1941 farmers cooperative purchasing amounted to less than 500 million dollars. Today it amounts to about a billion and a half dollars. Even when account is taken for the great rise in the price level, the degree of real advance has been substantial. It is in this setting of dynamic achievement that I wish to develop my talk today.

In planning for this talk I wrote to about a dozen managers of leading cooperative purchasing associations in various parts of the country to get their ideas on "where cooperative purchasing is going, where it ought to be going, and how it can get there."

The generous responses showed more interest in "where cooperative purchasing is going" than in "where it ought to be going." Let me give you a few excerpts from these letters.

One manager wrote, "Cooperative purchasing is going just about where cooperative management will head and push it. A cooperative, as such, is just a corporate entity and its success will be no greater than the efforts of those who direct it. Its leadership must have vision and the willingness to face realities and put out hard work."

With respect to the second part of the question, "where should cooperative purchasing be going," this manager held that a cooperative should study the needs of the members in its particular area and then plan to serve these needs on the basis of "cold facts."

With respect to the third part of the question, "how can cooperative purchasing get where it ought to be going," this manager advocated a program that would make a cooperative outstanding among the business organizations of the area--so that it would have (and use) an excellent cost accounting system, an effective budget plan, first-class personnel in key positions, labor-saving devices wherever feasible, retirement and hospitalization plans attractive to employees, and an open information policy designed to keep members properly informed on everything going on.

1/ Farm Supply and Service Conference, Convention of the National Council of Farmer Cooperatives, Memphis, Tennessee, January 4, 1949.

There is a lot of sense in this straight-from-the-shoulder letter. It recognizes that cooperative purchasing associations can't travel on ideology alone. They have to have competent managers at the throttle to get the maximum efficiency out of the engine.

Now let me draw on another letter. This second manager is a little more pessimistic. He feels that the future will depend upon the ability of purchasing associations "to keep the cooperative spirit." He believes that too many purchasing co-ops are "thinking more of size and volume than of service and quality," and he fears that if this thinking continues, "it will ultimately make the farm purchasing cooperatives nothing more than just another way of doing business." This manager holds that the "farm cooperative movement" should serve as a regulator "which will in time if properly applied help bring the capitalistic system in line and make it function for the good of all.

This same point of view was expressed in several of the other letters. As one manager said, "Competition is going to be tremendously keen for the consumer's dollar in the years ahead. It remains to be seen whether cooperative purchasing associations weaken their effectiveness by taking on all the extravagances of traditional distribution." This manager notes,"a tendency for purchasing associations to forget that the extravagances which developed among private concerns competing for the farmer's dollar contributed to a marked degree to making a place for cooperative procurement as a means of eliminating unnecessary services and of performing essential functions more economically."

Another manager concurs in the above idea. He remarks, "On the demand of our farm patrons, I think we have picked up a lot of frills in distribution which seriously increase cost. In order to stay competitive, we will have to get away from some of them but I am not sure just how it is to be done."

The greatest concern of any manager today, naturally, is what is happening now for managers are up against the gun. One manager, for example, says, "from a short-range viewpoint, we are going to have some rather difficult times, for it is going to be very hard to reduce expenses at both the wholesale and retai level in conformity with reduced volume which I believe many cooperatives are going to experience as farm prices go lower."

Another manager believes that, "Every association, both central and local, should put itself in position to continue to operate profitably even with a reduction in volume of business of 33-1/3 percent." You will agree that this is quite an order.

The first manager here quoted states that already his organization is "having a terrific battle at the retail level to get employees into a frame of mind where they will ask for business." He calls attention to the fact that "many of the employees have never known anything but a sellers' market and that they do not know how to sell." I think he has a real point here.

This point of view that operations must be tightened up in the immediate present ran through several of the letters. Emphasis was placed on the need for better retail credit control, better control of inventories, and better expense control. I am in complete accord on this.

On the other hand, several managers are of the opinion that their organizations can take care of themselves as far as distributive efficiency is concerned. One is of the opinion that cooperative purchasing has largely established itself and will go up or down with the trend of business. He sees "operating management" becoming dominant in more and more co-ops in contrast to "evangelistic management."

Another thinks that the real bottleneck to advance may lie in inaccessibility of raw materials. As he expressed this, "We have established a pretty efficient method of distribution of farm supplies, but our big problem is to arrange for adequate sources of supply for fertilizer, petroleum, etc., on a low-cost basis." He believes that such control can only be achieved by gaining control of sources of raw materials and essential facilities for processing.

Another manager expressed much the same thought in the observation that integration back to raw materials has become essential, "as margins at the local level have dwindled and have been pushed back in processing and wholesaling activities."

One of the things that struck me in the responses of the managers was the prevalence of the operator's viewpoint. There was little concern expressed about membership or public relations or ultimate goals.

Most of the managers were most concerned with doing the job of running the business and making the adjustments from a sellers' to a buyers' market. I think this view is in line with the mood of the day among business executives of all types. It is a sobering time. Imagination has been largely put on the shelf while attention is given to the protection of business existence.

It seems to me, however, that too much attention can be given to immediate problems even in a time like this. It would be unfortunate if cooperative purchasing associations in general should center their interest solely on protecting what they have achieved up to this time.

While admitting that great achievements have been registered in many areas of cooperative purchasing, can we admit that cooperative purchasing has arrived at a resting point? Is it fully "matured"? Perhaps it would be better to say that it has arrived at a point where it needs new inspiration, new drive, and new goals, combined, of course, with a continuation of ordinary common sense.

I sometimes have a fear that cooperative purchasing may become locked up in the thinking that prevailed during the long period of rising prices. Today we are confronted more by surpluses, and not so much by shortages. The situation of purchasing cooperatives today is entirely unlike what it has been during the past ten years. Instead of giving primary attention to getting access to supplies and raw materials--which was the imperative problem while supplies were not available--perhaps primary attention should again be given to distributive (or marketing) efficiency. By distributive (or marketing) efficiency I mean efficiency as distribution agents--merchandising efficiency, or if you prefer, efficiency in handling merchandise. In my mind this is the real point where purchasing cooperatives can score under the conditions of a buyers' market, for they can marshall the buying power of tens and hundreds of thousands of farmers and distribute supplies to themselves as cheaply as can any competitor.

I see a real danger of overinvestment in raw materials and plants at a time like this since it might tie up capital in fixed assets so as to decrease the flexibility of purchasing associations in tapping alternative sources of supplies. Much can be said in favor of controlling one's source of raw materials--but sometimes investments in plants and raw materials can be like having a bear by the tail. One friend who read this remarked, "Co-ops are slow to get out of bad deals." Anyway, it doesn't pay any business concern to own raw materials and manufacturing plants if it can get the supplies it requires more cheaply by purchasing than by making them for itself. Economists use the term "opportunity costs" to convey the idea that it costs something to give up opportunities. It can also cost something if one is not willing to give up opportunities, for the so-called opportunities can turn out to be white elephants with enormous appetites.

I think that during the past ten years we have come to make a fetish of the idea of integration--particularly of the vertical type where one organization attempts to do everything for itself. This has been called the cradle to the grave type of integration. If co-ops aren't careful, they can integrate themselves out of existence through losing their operating flexibility. To my mind, the main concern of a purchasing cooperative should be to render service most efficiently to its members, using whatever means are available to this end. The end should be service, not control of plant and equipment.

I hope that I am not misunderstood on this point. Taking everything into account, it will no doubt be desirable to integrate cooperative production and distribution functions much more in the future than has been possible in the past--especially where control over raw materials is vital to economic survival, as is the case for such extractive industries as petroleum or phosphate, etc., which are subject to the control of vested monopoly interests However, let us hope that such integration is based upon careful studies of economic alternatives, rather than on the desire to own property. A twenty percent or thirty percent or fifty percent degree of integration may give all the advantages of 100-percent integration and avoid unnecessary risks.

One further thought on vertical integration. If you decide to go in for it in a serious way be sure that you buy your plants and property on the lowest conceivable basis. Successful integration can't be accomplished if you buy at peak valuations. Many of our co-ops have good records on this to date for the properties they acquired on a rising price level could not now be acquired for double or triple the sum. Also let us remember that the problem of public relations grows with integration. Integrated organization must demonstrate to the public that they are vital to the public's interest. One of the managers has well expressed much of my thinking on this subject of integration. He writes:

> "I strongly favor the testing out, as resources and conditions permit, of still other steps toward the complete integration of the farming industry, from the basic source of raw materials from which supplies are fabricated, to the final packaging and direct sale to the consumer of the finished product.
>
> "Pilot plants? Yes. Full scale efforts to break costly bottlenecks? Yes. Insistence upon unlimited access to all materials required at costs known to be the lowest practicable? Yes. But grandiose expansion? No.

As I peer into the future--which I realize is a thankless and dangerous thing to do--I fear that many purchasing associations will not devote enough attention to their membership problems or, in other words, to the problem of keeping their organizations democratic in behavior and control. During the competitive market situation that we can foresee, it will be a temptation for them to cut down on the frills and in the minds of many managers and directors frills will include the job of painstakingly giving members information about their association and its operations. This, I think, would bring on disaster for in time cooperative purchasing associations under this policy would get farther and farther away from the farmers as their own organizations and a co-op would tend to become just another business--for farmers, rather than of farmers.

As one of the managers expressed this, "A purchasing co-op which comes to think and act for itself first, not remembering that it is only a means to an end, is just another big business." Another said, "If our purchasing co-ops will remain co-ops, serving their principals as trustees of their interests, and not as entrepreneurs to whom risk capital has been advanced; if they will strengthen rather than weaken the democracy of their control, they will not fall to the right, left, or rear of the march of business progress. But if they become closely controlled in fact, and begin to think and act like big business, by damn, they will be big business and nothing more."

I must admit that I am fundamentally optimistic for the long pull as far as cooperative purchasing is concerned. A few economic jolts won't stunt its growth as long as the organizations are kept generally healthy. However, purchasing associations must be careful not to let the jolts get the best of them and cause them to give up their cherished ideals.

What then is the future of cooperative purchasing? I hazard the opinion that it is just beginning to open up. While there are many fine purchasing organizations now functioning--who can say that they are yet perfect in every respect? Moreover, there are many areas in which purchasing associations are yet to be developed up to anything like their potential possibilities for usefulness. Some beginning has been made by regionals in working together but we have yet to say that real working harmony for the good of farmers in providing themselves with necessary supplies has been reached.

From time to time we hear it said that cooperative purchasing associations should content themselves with acting as pacemakers. In certain circles the thinking seems to be that cooperative purchasing associations can reach a certain point where they are pacemakers, and then stop growing. I don't think we need to worry about that contingency when we look around and see the power of competitive organizations. If a purchasing association stops growing it is apt to be because it has stopped being a pacemaker.

If cooperative purchasing associations hold to their democratic principles and operate as real cooperatives with benefits going back to the members in proportion to the use which members make of them they can go on growing without becoming monopolies. In fact, it is only when they get big enough to stop monopolies that this problem of regulation of the cooperatives must be faced. That problem can be met when we come to it but I don't see it in the cards for many, many years. The present problem is to see how good such organizations can be made so that they will not lose their democratic control and become like other big monopolistic businesses. We can leave the problem of how big cooperatives should be permitted to be our descendants.

As we look ahead, I think we will have to admit that the future of cooperative purchasing will largely depend upon the ability of cooperative leaders to anticipate problems and do a superior job of meeting them.

This is a time of dynamic change and in the years ahead adherence to the Rochdale principles will not protect any organization if it ignores technological, economic, and social trends. The future is a big question mark for every kind of business organization, whether cooperative or noncooperative. To some it will yield great opportunities for advancement but to others--who rest on their oars, who rely on stone-age trial and error methods in an era of scientific advance which will be known as the atomic age--it will spell doom.

As far as I am concerned, I can see no special handicaps to cooperative advancement in the years ahead. They are not handicapped by lack of manpower, ability to attract cooperators, or capital, or management, or by "know-how." They have one great advantage for they are in line with the social thinking of the day, as evidenced by J. A. Livingston's article in the Washington Post of December 29, entitled, "20th Century Seeks Gospel To Supplant Acquisitiveness." Livingston declares: "The mere fact that Senator Flanders' Subcommittee of the Joint Committee on the Economic Report held a hearing on Profits --Are they too high?--is a sign of great social change. Unlike 30 years ago, profits--per se--are not proof of achievement. Rather they're something to be defended."

Cooperatives give individuals a sense of belonging. They make sense in a world which has become ridden with fear of war. I feel confident, therefore, that this type of business organization is going to attract more and more people to it as they come to see that cooperatives are not only a good way of conducting their business affairs, but a good way of making life itself more worthwhile.

I recently heard a prominent sociologist declare that cooperatives are the ideal antidote to Communism. He pointed out that co-ops can combine efficiency in business procedures with democratic practices of participation which give dignity to the individual--both of which factors are accepted basic values in our American civilization. If this is true--and I think it is--cooperatives are on the march in America, right down the middle of the road!

PROBLEMS OF COOPERATIVES TODAY[1/]

By Joseph G. Knapp, Associate Chief
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We have come to another climacteric in cooperative development. Winston Churchill used the word "climacteric" to designate a critical turning point in the war. He referred to the Battle of Britain as a climacteric. Another was the entry of Russia into the war. Another was the attack on Pearl Harbor. Cooperatives also have their climacterics. The passage of the Capper-Volstead Act in 1922 which established the legal position of farmer marketing cooperatives in the United States was a cooperative climacteric. Another climacteric came with the depression in the early 30's which opened up a new era for cooperation. Pearl Harbor was another cooperative climacteric for the war demonstrated how important farmer cooperatives can be when the nation's survival is at stake. Now we have come to another climacteric. The long period of rising prices is over, and cooperatives must adjust their operations to an entirely different set of circumstances. They must get back to their fundamental job of building sound economic and social organizations for agriculture.

The other day over in Illinois I heard W. B. Peterson, Director of Distribution for the Illinois Farm Supply Company, preach a sermon on a text that he got from a sign in a corset shop. It read:

> "Just because the world is in an awful shape there is no reason you should be."

I plan to preach today on the same text.

To get our bearings, let's examine the economic conditions under which you are operating.

Last year the realized net income of farm operators in the United States was 17.4 billion dollars. This was 2 percent less than it was in 1947. Production expenses in 1948 were up 8 percent from a year before.

On February 15 the index number for prices received by farmers was 258. It fell 10 points from the previous month when it was 268. A year earlier - January 1947 - the index number reached its highest point - 307. Thus we find this index number 49 points, or 16 percent, below its high point.

On the other hand, there has been no such drop in the index number of prices paid by farmers. This stood at 245 on February 15. It was down only 3 points from January 15, and down only by 6 points from the all-time high of 251 in August 1948. Thus from the high point this index number of prices paid by farmers was down by only 2 percent while the index number of prices received by farmers was down by 16 percent.

1/ Notes for talk at Annual Meeting of Indiana Farm Bureau Cooperative Association, Indianapolis, Indiana, March 9, 1949.

This situation shows up in the parity ratio. A year ago the ratio stood at 112. Now it is down to 105. Since October 1946 (its highest point) the parity ratio has fallen from 133 to 105, or by 21 percent. This shows that the price and cost situation has become much less favorable for farmers during the past two years.

Such facts cause many people to wonder whether we are going into a recession - a leveling-off period - or a period of disinflation - whatever you may call it. On this I am reminded of some definitions that I saw the other day.

> "A recession is a time when you have to tighten your belt. A depression is when you no longer have a belt to tighten, and boy, when you lose your pants too, that's a panic."

Wherever we are on the economic roller-coaster maybe you had better keep a good grip on your belts for no matter what happens the boom is over. Evidence of this is apparent on all sides. For example, the National City Bank of New York in its February letter on economic conditions says:

> "...the return to buyers' markets, to seasonal fluctuations, and to competitive conditions which in many cases imply shrinking profit margins, is spreading widely. For high-cost producers and distributors....the going is becoming harder. One after another, all businesses will have to conform to changing conditions. ... For a long time the relation of wages, costs, prices, and incomes have seemed to have little importance in the situation. Inflated demands overcame and obscured all distortions and all lags of income, including those which the inflation created. But as inflationary monetary pressures are absorbed and commodity and merchandise pipelines are filled, the subsidence of demand makes the terms of trade again of first importance... . The phrase 'priced out of the market' takes on a more urgent meaning."

Here is a statement in the March issue of Fortune Magazine which expresses all this in a nutshell. According to President Byron A. Gray of the International Shoe Company,

> "We are getting back to the day when an industry's got to get there first with the highest quality at the lowest possible price and sell like hell."

Now in this setting let us turn to your own special cooperative problems.

Your Present Situation

Let's look at the record.

You have been going through a period of unusual prosperity - one that you will tell your grandchildren about. Last year, for example, the dollar volume of your State association jumped from $32,851,000 in 1947 to $39,126,000, or by 20 percent, and the year before, volume jumped by 27 percent, and the year before that by over 50 percent. Thus, in the

past three years, or since 1945, dollar volume expanded from about 17 million dollars in 1945 to about 39 million dollars last year, or by 130 percent.

Now, let's look at your county associations. An analysis of some 53 associations showed that they increased average volume from $946,000 in 1947 to $1,200,000 in 1948, or by 26.7 percent. Five years ago, or in 1943, the average association's volume was only $367,000. Thus, the average county association tripled its volume during the past five years.

Was this expansion due to higher prices or was it due to more units of merchandise handled? I think you know the answer. It was partly due to more units sold because farmers had accumulated savings and needs for merchandise; it was also due to the fact that the price of a given unit of merchandise was higher. Of course, I appreciate that normal expansion of both purchasing and marketing operations also explains part of this increase.

This phenomenal expansion in volume has run its course, and it has left serious problems for cooperatives and other business firms throughout the nation.

Cooperatives today are not nearly in as favorable position as they were two years ago. We may as well admit this fact and get our thinking down to earth.

Let's observe what has been happening as it has shown up in the annual reports of your State organization. Last year, while your volume expanded by 19 percent, your savings expanded by only 15 percent. Your gross margins increased by 18 percent, but your expenses increased by 26 percent. Your receivables (open) increased by 171.6 percent and your inventories by 96 percent. Your ratio of current assets to current liabilities fell from $2.20 to 1 to $1.77 to 1, while the percentage of net worth to total assets fell from 73.5 to 62.3.

It isn't my job to analyze these figures in detail. They largely speak for themselves. The honeymoon is over. Now we must give up living in a resort hotel and go back to our daily chores.

Let's take a look at the county associations. On the basis of the 53 associations mentioned above we find that average savings expanded last year by 6 percent while average dollar volume expanded by 26.7 percent. The average gross margins of the county associations increased by 6.5 percent; expenses increased by 12.4 percent.

The balance sheets for the 53 associations showed that receivables expanded by 28.6 percent, inventories by 15.6 percent. The ratio of current assets to current liabilities fell from 2.62 to 1 to 2.44 to 1. The percentage of net worth to total assets averaged 76 percent for both years, with both total assets and net worth going up by about 27 percent.

Your working capital position, or the excess of current assets over current liabilities, is not nearly as strong as your current ratios and net worth ratios would indicate. While the average increase in working capital was 9 percent for the 53 associations, 19 of them actually reduced the amount of their working capital. Moreover, in the average association cash represented but 11 percent of current assets, the balance being tied up in receivables (18 percent) and in inventories (63 percent). This situation is complicated by many factors - but it stresses the vulnerability of the associations in this period of intense competition. It may be that members should be called on for more membership capital to protect their resources and those of their State organization which can only thrive as the member associations thrive.

I am not saying that your general economic position is bad - but it certainly is not as good as it was last year. The trend is going the wrong way.

This shows up when we analyze these figures a little more closely, for the average figures cover up the weaknesses of certain county associations which are clearly headed for trouble.

While average volume increased by 26.7 percent there were several associations which showed little if any increase in volume.

While average savings increased by 6 percent there were many associations which experienced a decline in savings or suffered a loss.

While average gross margins increased by 6.5 percent there were several associations which had an actual decrease in gross margins. For example, gross margins for six associations declined on the average by 19 percent.

While expenses for the average associations increased by 12.4 percent, there were a number of associations in which expenses increased by a much larger percentage. For example, six of the 53 associations increased expenses on the average by 40.9 percent. While receivables for the average association increased by 28.6 percent, many showed a much greater percentage of increase. There were 12 of the 53 associations studied which practically doubled their receivables during 1948. (On the other hand, it should be noted that 10 associations actually decreased their receivables during 1948.)

Many associations also showed a significant expansion of inventory. While the State average increase was about 15.6 percent, there were 3 of the 53 studied which showed an increase of over 50 percent. (However, it should be noted that 7 of the 53 associations actually decreased their inventories during 1948.)

We observed above that the average association expanded its net worth in the same proportion as total assets, with the result that members' equity stood at three-fourths of total assets at the end of 1948. This is fine as far as averages go. However, several associations showed significant declines in their net worth ratios. Six of the 53 associations studied

showed an average decline in percentage of equity of 12.5 percent. For example, the net worth ratio of one association fell from 71 percent to 59 percent. Another dropped from 90 to 71 percent. On the whole, the net worth position of these associations is still good but is not so good as it was.

Average fixed assets for these 53 associations went up by 29.4 percent while total assets went up by 27.7 percent. However, several associations showed very large increases in fixed assets. Six associations, for example, expanded average fixed assets from $72,000 to $182,000, or by 153 percent. Let's look at these six associations more closely. Their volume went up 34.5 percent, their expenses went up 50 percent, and their net savings increased by 30 percent. Looking at the balance sheets, their receivables went up by 56 percent while their inventories went up by 17.5 percent. Their ratio of current assets to current liabilities went down from 1.95 to 1 to 1.13 to 1. Their percentage of net worth to total assets fell from 75.1 to 67.7 percent.

Now, I am not criticizing these associations for expanding their fixed assets for I realize that many associations have been forced to build or acquire additional facilities to economically serve the needs of their members. However, the acquisition of these high-cost facilities places a heavy burden on an association which must be recognized and then steps must be taken to correct this top-heavy condition by tightening up on operating efficiency, particularly in controlling expenses, inventory, and credit. This situation may also require greater membership investment by farmers in their cooperatives. Under modern conditions an association must provide itself with sufficient capital to do a good job. Farmers have a great stake in these organizations and they cannot permit themselves to be niggardly in providing them with the backing that they require to do a real job. Operating capital to a co-op is like fertilizer for a farm - if you need it to produce a crop - you must have it.

One of the things that disturbs me in looking over your records is the severe drop in gross margins which has been going on for the past three years. In 1946 your county associations had an average gross margin of 13.7 percent. In 1947 it fell to 12.6 and in 1948 to about 10.6 percent. This situation seems to indicate that competition is steadily growing keener. With expenses gradually rising, net income from trading has been reduced from about 3 percent of sales volume to less than 1 percent. The seriousness of this situation is further indicated by the fact that 40 percent of the 53 associations studied showed a net trading loss in 1948. This means that the realized net savings of county associations came largely from service income and from State association refunds. This is not a healthy situation. I believe that with strenuous effort operating efficiency can be translated into a better showing with respect to net trading income.

Now I am not downhearted because of these facts. They are explainable by the conditions we have gone through. I would be downhearted if I didn't think you could reverse these trends. I am not one who believes that cooperatives have not the guts to take heroic measures when it is necessary to preserve their existence. They can and they will.

Let's diagnose our major problems and plan to do something about them. There is no other way out. No Santa Claus can or should help you - not even Uncle Sam.

First, let's look at your sales - or volume of business. Up until a few months ago demand made merchandising effort almost unnecessary. Now demand must be cultivated, and it is being cultivated by competitors. American business has waked up to the need for "getting there fustest with the best merchandise." Cooperatives are apt to be too complacent on this. They figure that members - if they are loyal - will patronize the cooperative. Cooperatives must not hide their light or their merchandise under the proverbial basket. They must get it out. They must demonstrate that they are as alert in merchandising as any competitor. They must get their prices down, and protect the quality of what they handle.

Cooperatives, in general, are away behind in their merchandising methods. They need to study the needs of their members, and find the most economical means of serving them. Few cooperatives know the real meaning of such marketing tools as market analysis, consumer surveys, sales budgets.

I was over in Illinois a couple of weeks ago on a series of meetings which brought together all of the directors and managers of the county association affiliated with the Illinois Farm Supply Company. They were on their toes on this matter of merchandising. There was no defeatism in their thinking. While admitting that they have a tough job ahead they are out to expand unit volume of business by 15 percent in 1949. Every county association is making a "sales budget" and figuring out how to make it work. As W. B. Peterson, the Director of Distribution, said at these meetings, "An obstacle is what you see when you take your eye off the goal."

So I would say - let's put our energies into the job of maintaining and increasing unit volume. That's what pays the freight.

However, a word of caution is necessary here. In such a period as we are in we are likely to forget that purchasing cooperatives are not designed for high pressure selling. They are agents of buyers. They are set up to resist high-pressure selling or to take advantage of it. If purchasing cooperatives aren't careful they will put too much emphasis on selling and not enough on doing a good job of procurement and distribution. During times of oversupply of merchandise a first-class buying and distributing organization can be in a strong position. We must remember that if we buy right and handle right we can distribute right. It would be a tragedy if purchasing co-ops overemphasized the importance of selling. That is not what they are set up for.

Now, let's look at savings. We can't expect them to stay up when expenses are increasing. The only way to maintain savings is to cut expenses faster than gross margins go down. That forces us to ask - are costs too high? How can they be reduced?

I believe that your cooperatives can greatly reduce expenses when you get right down to it. In recent years we haven't been expense-minded. The revenue came in easily and what was the need to worry about a nickel or two. Now, you have got to get out the old pencil and see whether everything you do pays its freight. This doesn't mean that you have to cut out educational work, and things like that. It means that educational work will have to pay for itself in its effect on patron loyalty and support.

This leads me to a question about your accounting records. Do they really tell you what you need to know? Are your records so departmentalized that you can keep track of what you get out of each item of expenditure? I doubt it. Do your records show you the net savings realized on marketing operations separate from those on supply purchasing? What about budgets? Do you really budget or just work up a statement of hopes and expectations? In general, cooperatives can greatly improve their budgeting methods.

Now, let's look at some other trouble spots. No. 1 is inventories. Are your inventories too big? Are they properly balanced? Are they turning fast enough? It costs money to carry inventories. They should be large enough to meet needs of members but not larger, for that is speculation. The days when you could make savings on increasing inventory valuations are past. Now the chances are that everything you buy will go down in price rather than up. According to the March issue of Fortune Magazine, the sales of Sears Roebuck in January were down 11 percent from January a year ago, and the ratio of inventory to sales was the lowest in fifteen years. Are co-ops in as good position to meet such blows?

Let's look at another headache - accounts receivable. During recent years they have got away from many co-ops and it is going to be necessary to get back to the old time religion. More cooperatives have failed in the past because of too great a load of receivables then from any other cause. We must see that receivables are reduced to a minimum if they have got away. Now is the hour - as the song says.

I am glad to see that your State organization is alert to these problems and that your new Fiscal and Distribution Departments are taking vigorous steps to overcome them. I agree with the diagnosis of your present county co-op situation made by William K. Miller, the Director of your Fiscal Department, in the January issue of "The Co-op Official." I would like to quote a paragraph from his statement:

> "Many associations have heavy indebtedness, are underfinanced with ownership capital, and are badly in need of operating capital at the present time. Some locals have their earnings mortgaged for the next six to ten years, and so it is very apparent that the best judgment will have to be used in directing an association if earnings are sufficient to meet bank obligations. The directors and management of any association will now find it worth while to give careful attention to their credit problems. Inventories should be carefully analyzed and any high-priced merchandise contained in the inventories should be moved at once. Better quality

and lower prices both should appear in the near future, and competition is going to be much keener as merchandise is more abundant."

If all this is true - and I believe that it is - what are you going to do about it?

Some Things that Must be Done

The experience in every period of falling agricultural prices has demonstrated that well organized, well managed, and well financed organizations will come through stronger than ever, while weakly organized, managed, and financed associations will fall by the wayside when the going gets tough.

A co-op, if well administered, has as strong a form of organization as can be found. It is an air-tight form of organization for so many are dependent upon it and so many give it their support. You can't lick 10,000 or 20,000 or 100,000 farmers when they are working in an organized way through an efficient co-op.

The advantage of mass purchasing power increases as we get more and more into a buyer's market. Manufacturers are looking for secure outlets which will enable them to have continuous operations. A purchasing co-op which assembles orders from thousands of farmers can become a market factor with great power.

Purchasing co-ops should take advantage of their natural strength. They should do everything they can to get their members to build up their mass purchasing volume.

Advance ordering and advance planning of merchandise requirements can enable cooperatives to place more orders to the best advantage.

I think we will see more intensive development of cooperatives within the next few years. There isn't much new territory to conquer and cooperatives will have to do a better job of tilling the fields that they now possess. This will be a good thing. It should make for stronger economic units, closer membership ties. It will force cooperatives to build on the foundations they have.

Co-ops need psychological conditioning for the less prosperous times that may be ahead. People can do anything if they only think they can. One of the main problems in the war was to condition ourselves psychologically for the shocks and problems that we had to meet.

The fall in prices is already having one good effect. It is making people conscious that the goal of a cooperative is not big volume and big profits. I think we may as well begin to face a few facts. During the next few years volumes of business are going to decline unless our co-ops get more members or perform more services. Savings are going to decline unless they cut costs more rapidly than margins fall. Margins are dependent upon the prices competitors charge and we might as well admit that the competitors are going to cut their margins to the bone in order to survive. So, co-ops to survive will have to cut their costs even faster than competitors.

I think they can do this. I don't believe that any other type of organization is more fundamentally sound when it comes to meeting a depression. Co-ops have few inflated salaries. They are big-volume operators. Generally they deal with necessities which people will have to keep on buying. There is no reason why they should not be able to meet competition.

This does not mean that co-ops can do better than efficiently operated businesses if they are not operated as efficiently. What I am trying to say is that the form of organization of a cooperative is sound. However, a fool can ruin a good automobile very quickly if he doesn't know how to drive or if he is intoxicated or reckless.

The weakness of management-dominated cooperatives shows up during periods such as we are now in. If boards of directors have docilely followed the enthusiasm of their managers, they may not now be in position to give managers the guidance and control they may need during the period of adjustment. Directors cannot abdicate their responsibility during good times and be in position to apply the brakes when the going gets tough.

We must strengthen management - not only the managers but the boards of directors back of them. In the last resort, good management means a good board of directors, for a good board will not put up with a mediocre manager. There is no problem facing you that good management cannot lick.

Managerial efficiency has more influence on costs and volume than size of mill. A good manager can get more out of an old plant than a poor manager can get out of a new plant. Unfortunately, many plants are poorly designed and poorly located. Co-ops, like other firms, were in such a hurry to get them done that they didn't think of the long-run cost of poor location or poorly planned facilities. Now they must think carefully before they take another wrong step.

What do you need to do now to make your cooperatives shipshape? Some of the things that come to my mind are as follows:

1. Serve and satisfy the needs of members.
2. Stop "over-expansion," while providing essential facilities.
3. Keep a close watch on expenses through budgeting.
4. Keep credit and inventory under strict control.
5. Be sure that there is adequate working capital.
6. Maintain and raise quality standards on merchandise handled.
7. Select best man for every job and see that personnel morale is kept high.
8. See that your departmental plan of organization is logical and that all operations are systematized.
9. Keep members informed so that they will stick to the ship.
10. Build and maintain the good will of the public.

Who is responsible for doing these things? All of you - members - directors - manager and employees. Perhaps the greatest immediate load of responsibility falls on the directors, for in the last resort it is their job to see that an organization is functioning soundly.

Some General Problems

What are some of the main general problems confronting farmer cooperatives today? This is not an easy question and many of you would give different answers. All of you are aware that cooperatives are being tested by present adverse developments. This is uppermost in your thinking as it should be. I am therefore inclined to think that the main problem of cooperatives today is to adjust to the new economic conditions. This calls for a fundamental change of thinking in the minds of many of us. This calls for courage. We must not permit ourselves to be scared of the future. President Gill of the great Cooperative Wholesale Society in England recently said, "I have never known things so bad that they might not be worse. Neither have I known the time when hope was entirely extinct for those with courage and faith in the future of democratic ideas. It would be a mistake to expect an easy and miraculous achievement of our aims. The road may be long and the going hard, but it was always so for those things which are worth while."

I think a second problem which we have at the present time is keeping down to earth. We must reappraise our trends and ambitions. We must not try to do what is impossible. There is plenty to be done which is entirely possible and we must have the grit to do it. It may take will power to enforce a strict credit policy, to tighten up on inventory, to trim personnel, to postpone investments and facilities, to persuade farmers to invest more capital, but these things must be done if economic conditions call for them. We must be careful that we keep the control of cooperatives in the hands of the farmers themselves. I think that the strength of your State organization here in Indiana lies in your county organizations. When I think of your State organization, I do not think of it as a big corporation with headquarters in Indianapolis. I see it as 130,000 farmers gathered together as neighbors in county organizations and I see these county organizations holding the reins for the State organization. I feel that coordination among co-ops is bound to grow in importance even on the national level. We can't escape working together in wider and wider circles if we are to keep pace with technical and social progress.

Another challenge which the present situation brings is that we not lose our ideals. When times get tough, we are apt to put a premium on toughness, on the hard-boiled approach. While it can be admitted that cooperatives cannot be soft in such a time as we are in, it would be a tragedy if we lost our hearts or our vision. As President Gill has pointed out: "No organization can move surely ahead in these troubled times unless its leaders and its members are clear and certain of its purposes and are filled with faith in its principles." We must have leaders who are not only "unafraid to contemplate the future" but who are "desirous of analyzing its potentialities." James B. Conant, President of Harvard University,

recently said (in his book "Education in a Divided World"): "The morale of a free nation no less than that of any group of men and women depends in large measure on agreement as to the ends for which all labor."

This is a time when we should examine our whole system of cooperation. During the recent lush years we have been so pressed by the job of getting supplies out to members that we have lost sight of some of our fundamental objectives. I regret to say that our organizations have in many instances lost some of their vitality as cooperatives. We have oftentimes followed managers too blindly, not daring to criticize for fear that we will lose tjem. We have made decisions to meet emergencies without careful study. We have loosened up on sound established policies and operated more or less on a day-to-day basis. We have gambled on the future like extravagant sailors. We have come to look at the letter rather than the spirit of the law. We must increase our internal criticism. We must examine our methods, procedures, policies, etc. to see whether they are right and the best, and then have the intestinal fortitude to pull up our socks.

We have come a long way in our cooperatives in the last dozen years but have we arrived at any ultimate or long-run goal? Have we achieved full cooperative efficiency? Have we demonstrated that the cooperative method is superior to other methods for conducting business?

Let me ask you, has the job that cooperatives set out to do, been done? Are our organizations yet perfect? When do you think they will be perfect? Are your facilities all you need and wish? Are your services so good that they can't be improved? Are there jobs that your cooperatives should do that you haven't gotten around to? Are monopolies dominant in petroleum, fertilizer, farm machinery, steel, and in other products which farmers require? Are your methods of cooperative administration perfect? Are your members all alert and well informed? What about your management? Have you provided for a continuing good management?

At a meeting the other day I heard a cooperative manager say that "Blind adherence to one method of operation can make cooperatives into sitting ducks where their competitors can pick them off." I think this expresses something of fundamental importance. We must be careful that cooperative procedures and methods do not become inflexible. Cooperatives must be able to adjust their methods to changes in economic environment. Cooperative orthodoxy may lead to cooperative collapse.

The Attack on Cooperatives

There is another problem that must be faced - the attack on cooperatives. Don't think for a minute that this onslaught has run its course or that it is weakening. The opponents of cooperatives are as alert as ever and watching for opportunities to pounce upon cooperatives and destroy them. I have in my hands a little folder which is being broadcast in unlimited quantities to businessmen, educators, lawyers, doctors, and similar groups. This depicts cooperatives as a pack of wolves - labeled "Co-op Tax Dodgers."

Now I maintain that this is effective propaganda of a most misleading character. It completely distorts the true fact by an appeal to prejudice. It is the old trick of besmirching character by slandering an honest man who is not there to defend himself.

Can cooperatives be complacent in the face of such willful ill-will? If such vicious mistruths are not refuted with the true facts, they will become lodged in the minds of the public in the form of prejudice against the cooperative form of business. I had this come home to me just the other day. Out of a clear sky my boy of thirteen said, "Dad, I think cooperatives are a good thing but they ought to pay their share of taxes." Where do kids pick up such ideas? The answer is simple - from the radio, the newspapers, and from their playmates.

Needless to say, I spent some time talking with my boy, explaining the sisuation, but it was an up-hill job. He was sure that co-ops don't pay their share of taxes because he had seen or heard this said so many times. It just had to be true because it was so frequently said.

That is the kind of propaganda cooperatives must combat and conquer if they are to survive and prosper. I am confident that it can be overcome only by one thing - keeping the public informed as to the real facts. No misleading propaganda can long stand up against a militant dissemination of the truth. We must teach the American people the truth about cooperatives - what they are, what they stand for. The place to start is right in our own cooperatives. There are several million cooperative members in the United States. We should educate them to serve as minute-men so that they can effectively defend cooperative organizations against slander whenever and wherever it rears its head. There was never a time when it was more important to have an informed and militant membership.

Too many cooperators have an inferiority complex about their cooperatives. They aren't sure whether their co-op pays its share of the taxes, etc. They don't really know how their cooperatives work. They are fair-weather cooperators. They will stick with their cooperative as long as it is apparently the popular thing to do.

The income tax issue is a red herring. The real opponent is cooperation as a system of doing business. Cooperatives must realize this and not allow themselves to be confused. Here is a place where there is danger of appeasement. If you know that someone is determined to destroy you, you must be careful not to put your head in a noose. All propaganda against the co-ops must be carefully studied to see to what extent it is maliciously contrived. However, even though some of the propaganda is maliciously contrived we must remember that it cannot be ignored. Such propaganda would not be effective unless it appeared to have some element of reasonableness in it. The more telling the propaganda against cooperatives, the more we must examine it and see that the true facts are known, for true facts are the best antidote.

Looking Forward

I wonder whether cooperative lenders and members spend enough time bragging about their real accomplishments. You will notice that I said real accomplishments. Big volumes of business or large savings under favorable conditions are not something to brag about. What we should brag about is evidence that cooperatives are contributing to the vitality of our democratic form of society, how they are eliminating monopolies, cutting costs, improving quality, providing needed services, etc. I think we must enlist the interest and support of people by letting them know how co-ops enable people to work together to further worth while goals. The total accomplishments of cooperatives in making life more worth living are impressive. Do we sometimes take too negative an attitude?

I feel that cooperators to really get maximum satisfaction as cooperators must be proud of their organizations. They must believe in them, have a crusading zeal based on a record of satisfaction and accomplishment - based on the way in which farmers prove that they can work together.

Cooperatives must keep their morale high. They must accept facts and stop kidding themselves. They must avoid sentiment and get the best men in the key posts. The next few years are going to provide opportunities for those with imagination to see them. The weak individuals and the weak organizations will fall but the strong will grow.

We must be adaptable and progressive. Too many co-ops at the present time are afraid to reduce prices and lower margins. If co-ops lag on this they are apt to be sitting ducks and not pace-makers. Co-ops to be pace-makers must realize that they must set the pace and be better than their competitors. There is much bunk written and said about cooperatives as pace-makers. Being a cooperative doesn't make an organization into a pace-maker. Some co-ops are and some are not. However, all cooperatives should strive to be pace-makers, and a co-op that doesn't strive to be a pace-maker never will be one.

I consider you in Indiana to be cooperative pace-makers. You are looked to for inspiration and guidance. What you do here will have a great effect not only on the future of agricultural cooperation in Indiana, but on the future of agricultural cooperation throughout the nation. All power to you.

PLANNING AND EXECUTING THE RESEARCH PROJECT *

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
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I am going to start out with the facetious remark that most of us are short on planning and long in executing the research project.

The two functions really must be integrated. If we do a good job of planning, the execution will come along in due course. If, however, as so frequently happens, we get an idea and gallop off on it without being too sure of where we are going we get into real trouble and sometimes even miss the destination. I am reminded of the well-known fellow who got on his horse and rode off in all directions. There are too many so-called research men like him.

What is this thing we are talking about? What is a research project? What is a research project set up for?

Isn't it a plan designed for finding out something that we don't know? To find out anything don't you have to start somewhere?

What is the first job in connection with a research project? Isn't it -- selecting some problem on which to do research work? I am of the opinion that one of the most important aspects of research work is the selection of the problem or the subject of research. Perhaps half the time devoted to research is wasted because it isn't worth undertaking in the first place.

The research worker has a lot more control over this phase of research than is commonly thought. If a research man is alert he can usually select research jobs that he wants to do -- or thinks are important to do. A research worker who doesn't personally identify the research problem with his own interest is apt to be a poor one.

The individual research worker may be assigned to a specific problem but he usually can greatly influence the character of the job done. Much good research is developed by the research man who has the feel of a research need. He is trained to apply research techniques to needed situations. Frequently practical operators cannot see how research could help them because they don't understand research techniques or values.

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*This talk was given in December 1949 at the Annual Workshop of the Farmer Cooperative Service [then the Cooperative Research and Service Division of the Farm Credit Administration]. The author was then Associate Chief of the Cooperative Research and Service Division. It is reproduced without change except for adaptation to present name of organization.

The selection of research problems for an organization like ours is a constant problem for we must employ our limited staff with optimum efficiency, but it confronts all research organizations. For example, Dr. Joseph S. Davis of the Food Research Institute says: "The ideas of our research group are more numerous than we can develop into projects, but we continually wrestle with priorities."

One of the problems in selecting a research project is to focus attention in a way that will yield results. It is not easy to design a project -- to make up your mind as to just what it should cover. As Lynden O. Brown says in his excellent new book on "Marketing and Distribution Research" (Ronald Press, $5.00): "The tendency to attempt to solve too many...marketing problems...in one analysis is very common, especially among people who lack a broad research experience. If one spreads out his efforts over a large number of proposals, he is almost certain to dissipate his energies, to become entangled in a confused operation, and to fail completely to produce a sound and convincing result."

I remember one of my first experiences along this line -- which has deeply influenced me. I was then a graduate student at Stanford University -- working as a Fellow with the Food Research Institute. At that time -- 1925 -- the wheat pooling movement along Sapiro lines was in full swing -- not only in most wheat belts of the United States but in Canada and, to some extent, in Australia as well. It was the kind of dramatic movement which would excite the interest of any young man. There were many problems, personalities, etc. I decided to make it my dish and I submitted to Dr. Joseph S. Davis and his fellow Directors as the subject for my doctoral dissertation the topic, "The World Wheat Pool Movement."

A few days later Dr. Davis called me in for a little talk. He thought the pooling movement a good subject for examination but he wondered whether I wasn't taking on too much of it. He suggested that I replan my project on reduced lines.

In a few days I was back with what I felt was a major concession on my part. I proposed that my thesis would be limited to the "Wheat Pooling Movement in North America."

Dr. Davis was very kind and understanding. He expressed appreciation for my willingness to reduce the scope of my project, but he wondered whether this was not yet a rather ambitious undertaking. Had I considered the differences in the wheat grown in various wheat belts, the political and social considerations, etc.? He wondered whether the problem in Canada was not a difficult one in many respects. To make a long story short, I decided right then to limit my subject to "Wheat Pooling in the United States." Even this didn't satisfy him. He wondered whether it wouldn't be well to limit my undertaking to wheat pooling in one State -- say, Kansas.

This was going too far. I refused to reduce my subject to such a small canvas. I remember saying that I would cut it down to one wheat belt -- but no further. At this point Dr. Davis yielded, and I wrote my thesis on "The Hard Winter Wheat Pools."

I have never regretted the decision that was so politely forced upon me. As I got into my subject I found that there was plenty of scope for my ability in the study of the Hard Winter Wheat Pools alone. I had enough trouble completing that job. The Lord knows what would have happened to me if I had tried to pursue to a conclusion the larger subject.

I have recounted this bit of personal experience because it brings out something of major importance. Too many jobs are designed on lines that are over-ambitious. The result is that the worker gets bogged down, overwhelmed and frustrated. He either doesn't complete the job or does it superficially. He starts out to do a life's work and if he does it -- it may take his life to complete it -- and by that time the problem has lost interest.

Let's assume that the subject for the research is selected. Now what does the researcher have to do? I would say -- develop a plan for doing the job. He must decide what to do first, how he is going to do it, etc. This sounds simple enough -- but is it?

The first question to ask oneself is, "Do I know the problem well enough to develop plans for the study?" On this point I have a letter from Professor E. A. Duddy of the University of Chicago in which he says: "You must develop working hypotheses in order to get started." How do you get them? How do you get started? This is the difficult thing for many researchers.

Let's take a practical problem. About a year ago the National Cooperative Oil Committee requested us to make a study of the petroleum cooperatives. The request for the study was very general. It was pointed out that the petroleum cooperatives had grown up without plan and that a study was needed to bring about better coordination among them. When this request was made the petroleum cooperatives were riding the crest of prosperity.

When this job was handed to us we realized that it was no small undertaking. We had no highly trained staff workers acquainted with the peculiar technical problems of the petroleum industry. In fact, we could not promise to put more than one regular staff member on the assignment. We accepted the job with the understanding that we would do our best on it with our very limited personnel resources.

Now let me take you through the steps we took in working on this assignment. The first thing we decided to do was formulate the job to be done -- and make the objectives precise. To this end we wrote to each of the five members of the National Cooperative Committee and asked him what he thought could be done on the proposed project. I remember asking this question: "If a problem of this kind fell in your lap how would you handle it?" One member, with a sense of humor, replied: "I would stand up and let it roll off." Then he gave us some real ideas. Anyway we took the views so received -- and they showed much diversity -- and worked them up into a set of eight objectives. With these we were able to develop a generalized project statement which would indicate how we planned to go about doing the job.

We then sent this tentative project statement out to members of the committee and got their approval on what we were up to. Now, we had some solid ground under our feet.

I should like to follow our experience along on this job -- which we are now up to our necks on -- but time won't permit. It is an interesting case study of a research job. For one thing -- the conditions which prevailed when we started this job have completely changed. This has made the subject more difficult and even more important. It has changed the values of the objectives, changed our attitudes and our methods.

Working to a Plan

In this talk I am primarily concerned with the way a research project is planned and executed. Here I wish to emphasize the basic importance of working to a plan -- not a stereotyped plan, for every problem calls for its own treatment and we can't turn out research studies on a formula like pieces of link sausage.

According to Brown -- and I concur with thanks -- eight steps should be followed in a scientific analysis of a product or a service: (1) The Situation Analysis; (2) The Informal Investigation; (3) Planning the Formal Research Project; (4) Collecting Marketing Data; (5) Tabulating and Analysis; (6) Interpretation of Results; (7) Presentation of the Results; (8) Follow-up.

In planning we are dealing primarily with the first three steps. The job of executing or following through comes largely in the last five.

The first step is the situation or preliminary analysis. At this stage the research worker has no fixed objectives. He needs to get an understanding of the background and environment in which he will be working. The purpose of the situation analysis is to get one's bearings.

Then comes the informal investigation of the specific area or condition to be studied. The informal investigation is designed to give the research worker the "feel of the problem" and enable him to put his "finger on the central problems."

I can give you an idea of the importance of such exploratory work through an example.

Within the past month we received a request for a study designed to show the amount of expense for membership relations, public relations, field work, etc., for a group of regional purchasing associations. On its face, this seemed a simple request. Preliminary analysis, however, disclosed that many difficult problems were involved such as whether existing accounting records could provide the data required on classification of expense and allotment of overhead burden. It was decided to approach the problem from the standpoint of a case study for one organization, and arrangements were made for an exploratory survey by Dr. Abrahamsen to determine the most feasible approach to doing the job. On this type of job the determination of a workable plan is all important.

After these exploratory stages the research worker is in position to plan formally the research project. Brown considers this step "the heart of the entire research operation." He says:

> "The planning of marketing research is, in a very real sense, the most important step in marketing research procedure. The success or failure of the entire investigation hinges largely on the care with which the planning step is executed, for all the activities which follow are necessarily dependent upon the skill with which the plan has been developed."

However, he goes on to say:

> "Unfortunately, this step is often handled rather superficially for several reasons: Lack of a specific program for developing the plan, unwise hurry to obtain the final results, failure to appreciate the importance of exploratory work, and failure to provide adequate funds for this phase of the research."

Brown suggests the following procedure for the planning stage:

1. Determining the specific purposes of the investigation.

2. Determining the type and sources of data to be obtained.

3. Preparing the forms to be used in collecting data.

4. Planning the sample.

5. Conducting the test investigation.

6. Determining operating plan and costs.

Great stress is placed on the first point:

> "The selection of specific purposes determines the nature of the entire investigation. If those purposes have not been properly crystallized, it is almost certain that the research staff will wander around aimlessly, obtain unsatisfactory data, and arrive at foggy conclusions." [Amen!]

He goes on to say:

> "The final objective of this first step is a clear, concise statement of the specific purposes of the analysis. Therefore the researcher should take the various hypotheses which have been discovered in the situation analysis and informal investigation, and determine the specific ones which are to become the objectives of the formal research."

Brown, like many other research authorities, emphasizes the value of formulating <u>hypotheses</u>. This is a $2.00 word which is worth $5.00 in practical use.

Brown uses it to mean the raising of the right questions which, if answered by the research procedure, will give the right answers. He comparies it to the diagnosis of a physician, where the doctor examines a patient to see if his symptoms suggest a specific disease. If the diagnosis is right he can apply the right remedy. Brown points out that the formulation of a hypothesis comes naturally or automatically as one gets a grip on the problem being studied through the situation or informal analysis. He holds that "To attempt to obtain sound hypotheses while sitting in an office is one form of 'thinking in a vacuum'."

On the value of the hypothesis in research I would like to quote from an article by the late Dr. Carl Alsberg, a recognized leader in research, both in the natural and social sciences.

> "Scientific progress...proceeds by two quite opposed processes--by differentiation, which furnishes new facts, and by integration, which furnishes generalizations.
>
> "Every generalization is a hypothesis. Hypothesis plays a necessary role in the progress of science which no one has ever contested. A new hypothesis may be based on intuition rather than on logic or proof and may be made by a great generalizing mind on quite an inadequate basis of facts. It may be nothing more than a choice between alternatives equally probable in the light of existing knowledge. ...

"The testing of a new hypothesis is, perhaps, the most important process for which it can be used, since testing and verification lead to the discovery of new truths. The importance of a hypothesis is not that it is true, but that it can be subjected to a process of testing or verification. ... In the attempt to verify it, we come upon signposts that point the road to the discovery of something unknown and new.

"A new hypothesis is a salient in the battle front from which new territory in the unknown may be conquered. ..."

All of us are continually forming hypotheses for we all generalize on the basis of a limited store of knowledge. When we assume anything or when we follow a hunch it is on the basis of a hypothesis. What we are talking about here is the formulation of the right hypothesis as a basis for research analysis. If we ask the right questions -- that is, formulate the right hypotheses -- we may come to the right answers. On the other hand, if we ask the wrong questions -- that is, set up faulty hypotheses -- we are bound to get the wrong answers for we have started out wrong. At least that's my hypothesis.

Brown believes that the formal research plan should be embodied in a carefully prepared "project statement and that this will greatly expedite progress." He mentions with approval "one comprehensive study where the plan embraced 52 single-spaced typewritten pages." He also believes that in conducting a research project it is important to take up the steps in logical order -- even if several steps are worked on simultaneously -- since this will avoid such common errors as "undertaking field work before an adequate plan for the investigation has been carefully developed, or trying to develop a sound plan for an investigation without first getting a good grip on the underlying facts through a situation analysis and informal investigation."

I am a strong believer in the project statement as a tool for the research man himself. It seems to me that too many research workers look upon a project statement as a bit of red tape. Yet these same men would not hire an architect to build a house for them if the architect worked without blueprints. Most people when they build houses wish to see drawings.

The project statement is like an architect's blueprint. It shows the design and the materials to be used. It gives some idea of the labor involved, cost, and time required for construction.

However, there is a difference -- the project statement gives the plan as of a certain time -- it is always subject to change as the study proceeds.

While I am considering the project statement as a research tool for the research worker himself, it should also be noted that a good project statement can be helpfully used to show others what you are attempting and how you are proceeding.

I realize that many "old-hand" or experienced research workers do not follow or even favor the use of research project statements. However, they go through the steps and normally follow a plan even if they do not prepare it in written form.

Project statements are particularly useful for inexperienced research workers. Older hands at the game think logically more automatically.

Now what are some of the things that should be included in a research plan -- the project statement? I think you will not hesitate to agree that the plan should indicate where you intend to go and what you intend to do to get there. A project statement should also set out arrangements for work such as responsibility for leadership, nature of formal cooperation, type of publication, etc.

I believe that a project statement should also serve as a time table to indicate where you think you will be at certain times. We should schedule research on a time plan -- not to the minute but in reasonable periods. We should allow enough time to do a job properly but not be extravagant in allowing more time than should be required.

Many research workers have little time sense. They often take on more work than they can see through, for it frequently takes more time to do a job than is anticipated. A careful research plan should not only provide for enough time to complete the analysis and prepare the report but it should also keep the worker from working forever on the same job.

Some of you will remember the lectures which Dr. H. R. Wellman presented to our Workshop in January 1939 on Methods of Research. He had some very interesting comments on the preparation of project statements.

> "Most project statements which I have seen...are not definite enough. About all the information that can be obtained from them is that a particular research worker proposes to busy himself for an indefinite length of time on a rather vague problem...
>
> "The reason why many project statements are so innocuous is, I think, because few people take them seriously. They are looked upon as a disagreeable chore that has to be done, but which can as well be done poorly as far as having any effect upon actual research. ...
>
> "For a number of years the idea has been gradually crystallizing in my mind that a properly prepared project statement would not only be of great assistance to most research workers but is a vital tool of research -- a tool which only those research workers who are real geniuses can afford to be without. ...

"Every project statement should, I think, cover three essential points: (1) The specific question or questions to be answered; (2) the kinds of data needed to answer these questions; and (3) the method or methods of analysis to be used."

Dr. Wellman was convinced that the careful formulation of a research project was well worth the time and expense involved. In fact, he held that the time spent in preparation and planning was the most productive time spent on an ordinary research project since it economized so much time that would otherwise be spent later in wasted effort. He even expressed the opinion that probably one-sixth of a worker's time on a given project could profitably be spent on preliminary analysis in shaping up the project.

Many of you recall the emphasis that Dr. Stokdyk gave to qualitative analysis. He expressed his views on the importance of this in a letter which he wrote me in 1938. I quote:

"...In my experience in research work the qualitative analysis has been the hardest to formulate, yet in the long run the most helpful, not only in organizing the project but in drafting the final report. I can recall spending hours and even days on one phase of the project, trying to get down a few sentences on paper that would express adequately the qualitative analysis. Let me illustrate what I mean a little more fully. If one undertakes a research project and has stated its objectives, and is considering his data, either consciously or unconsciously, he has a working hypothesis in mind. That is, back in his head there is an idea that if the data disclose certain things he is going to make certain conclusions. If one sets this down on paper, he will find that the scope of his project will be more definitely defined and that he will waste little time in the field gathering extraneous data."

Up to this point I have been emphasizing the need for planning -- not planning for its own sake -- but planning to achieve efficiency in execution. According to the dictionary, executing is simply "producing in accordance with a plan or design."

I'll admit that there is often a slip between cup and lip and that plans may be too elaborate for a given need. The emphasis in planning must be an efficient execution. When you have developed your working plan you have only started, but with a good plan you should have a good start.

A friend once said to Charles F. Kettering after he had tried an experiment which didn't work out, "The thing that amazes me is why we could be so one hundred percent wrong." Kettering replied, "You weren't wrong. You didn't start in right."

Completing the Plan

Now I wish to focus attention on execution -- or on carrying a project to a satisfactory conclusion. A good many research projects get bogged down at various stages but usually in the stage of analysis or report preparation. Too frequently the research worker loses his zest at about this point -- just when he should be putting on speed. As we near the goal the finish line seems to move away from us.

As I have observed already, much of the difficulty in executing research projects comes from over-appetite to begin with. A man orders a whole pie and gets sick of it while eating it. If he had ordered a piece at a time he would enjoy each piece more as he ate it -- not get sick -- and save himself money. The moral is, take your research piece by piece, and don't bite off more than you can chew. As Dr. Alsberg used to say, "Too many research men try to write their magnum opus at 40."

Another thing that we should keep in mind is that research workers usually go through a period of natural confusion before they reach a conclusion on the relative importance of facts. The research worker should recognize this stage as one of synthesis -- he is building new ideas. It's tough on the mind -- till the light strikes.

Research work is not easy. To be a good research man you have to have courage, for it often takes real grit to stick to a job and see it through. Oftentimes -- when your results seem most meager and you are thoroughly discouraged on the job -- your sixth sense comes to the rescue and pulls you through. Fortunately, when we are blue -- we may see the real problems more clearly. An always optimistic research man would make me wonder whether he was able to perceive and understand a real problem. Life is complex to a real research man -- for he realizes how much he doesn't know.

Different people work in different ways. There is danger of cut-and-dried methods in research. Conditions are seldom perfect for doing a research job. If you organize your work well you can do bits at a time. For illustration, Dr. Davis does not think it necessary to collect all available information before starting to write, since a large amount of collection of data comes as you see the need for it.

Moreover, I believe that a research worker can often expedite a research job by working on the easy parts of it first. I like the approach to research of Charles F. Kettering who says:

> "The process of research is to pull the problem apart into its different elements, a great many of which you already know about. When you get it pulled apart, you can work on the things you don't know about. We must get people to understand this procedure."

It is reported that a young man once asked Benjamin Franklin how he made such sound decisions. Franklin replied that he simply let the facts make his decisions. When we get the facts and when the facts are measured and logically organized so that they are apparent, a research job has been done.

Many people work on the complex things first and get so worked up they have mental breakdowns. In research -- as in other things -- "easy does it."

Break the big job into little jobs, and then put the parts together. Let your mood determine what you will do. Do the simple jobs first and this often clears the way for bigger jobs. Psychologically, accomplishment begets accomplishment. If you get bogged down, get a grip on another piece of the job. If you get desperate, go to a friend -- get advice -- don't butt your head against a stone wall. Do anything to get new momentum!

We should always remember that we can often expedite work by getting help from others. Too many try to do it all themselves when they could get very worthwhile help from colleagues. We are fortunate here in the Service. When we come to a blind spot we can go to a colleague. However, I am afraid we don't practice as much cooperation in our research as we could and should.

Sometimes too much time is spent on a research job that should be closed out. Just because you have got started on a job you don't need to finish it if you find it not worth finishing.

If the job gets too difficult, if the results are worthless, if the cause for the study has changed so that there is no real need to complete it, cut it out -- or issue a brief statement to bury the job with what results seem worth salvaging. Don't keep feeding a diseased pig.

Another thing that holds up completion of research is the sense of perfection in many research workers. They are not satisfied with less than 100 percent perfection -- a masterpiece. In many cases 90 percent perfection would yield effective results and enable the worker to get on with another job.

I recently came upon the following statement by Dr. Joseph S. Davis which hits the nail on the head. He writes:

"In almost all walks of life we tend to expect too much, much too soon. ... But there is an opposite danger -- that of having no 'terminal facilities' and of wasting a great deal of work because it is not pushed to completion without excessive delay. Years ago I was shocked by having the late George F. Warren say, in a discussion of economic research in agriculture: 'Get it out! That's the important thing.' I still shrink from going all the way with Warren, for too much half-baked work clutters our desks and tables. But perfection or a near approach to it is usually impossibly costly. There is a happy mean every organized research group has to struggle to attain."

A research job is not done until the report is prepared -- in a logical, convincing way. I don't go along with the idea that writing a research report can be largely an editor's job for a research man worth his salt will want to present his report in his own way. An editor may help him shape it up, but the editor shouldn't have to reorganize the data and present it. If a man is a logical thinker he is naturally a logical organizer and writer. He may need help in literary style but if his ideas are so muddled that they aren't clear it is hard for an editor to honestly make much of them.

In this talk I have so far looked at the subject assigned me from the standpoint of the individual research worker. However, every research worker in the Farmer Cooperative Service is part of a team and sometimes a need arises to harmonize the interests of the individual with that of the organization as a whole.

This isn't a serious problem for it has always been our aim to encourage the independence and initiative of each member of staff. We appreciate that you can't drive good research workers. Our job is to select, train, and stimulate them.

Some people, especially newcomers, who do not know us, might feel that we don't have enough research system. Perhaps they are right. We have followed the idea of getting good men, giving them responsibilities and also credit for accomplishment. We are really organized on a branch basis. The head of each branch is in effect director of research for his branch. It's up to him to get results.

In the past we have had a central project committee, made up of senior staff members who reviewed project plans before they were undertaken. This works out pretty well in a small organization which is conducting a limited number of projects, particularly when the projects are of substantial scope. It doesn't work out so well for an organization which deals with a large number of research and service projects of varying types during a year -- many of them on a high pressure basis.

We have evolved a procedure which strikes me as fairly practical for our needs. Let us assume that a request comes in for a study. What do we do about it? First, we consider the request in the light of personnel available, probable time required, relative importance, etc. If the job seems worth doing and if we are in position to handle it we accept the assignment and arrange to do the work involved. Other projects get on our books because it becomes apparent within the staff that there is need for a study to meet a pressing or an anticipated problem. There is much flexibility in our procedures. The central office may suggest a study or the suggestion may come from a worker in a branch. We work as a team and every staff member is free to offer suggestions or call on anyone in the Service for help.

In some cases where a proposed project affects the work of several Divisions or Branches we hold conferences of representatives concerned in order to get the benefit of group counsel. These conferences, to some extent, take the place of a formal project committee which would be less flexible in membership.

We have not made a fetish of project statements in our work. On simple service jobs plans of work are usually covered by correspondence or memoranda. It is not necessary that a project statement be prepared even though it may be planned that a report will be issued.

On more formal jobs, either research or service-research, project statements are prepared in accordance with a project statement form which calls for information on need for study, objectives, procedure, personnel responsibilities, time schedule, form of publication, etc. Although a project statement, so prepared, is primarily for administrative use it frequently serves the needs of the research worker. In some cases more detailed statements are prepared for personal use.

As to follow-up -- we rely on each branch chief to keep his program moving. Moreover, our quarterly reports show how or whether work on given projects is progressing.

On the whole, I think we have a fine organization to do the kind of job we are expected to do. We aren't burdened by red tape but we have enough organization and system to keep out of each other's hair. I certainly think that we can do more as a group to plan our work effectively and execute it with greater dispatch and efficiency. However, I believe that direct responsibility for planning and execution must continue to rest largely on the individual staff members and the Branch Chief. My job and that of the Division Directors is mostly in developing and coordinating our program as a whole so as to maintain balance; and see that a high standard of work is turned out; and keep responsibility and initiative where they belong. It's our job to provide and maintain a staff who can do the job, and encourage them to keep on bringing home the bacon in good work done. While we admit that the Farmer Cooperative Service is far from perfect we are at least up on our toes most of the time and we are proud of our record.

PROGRESS OF AGRICULTURAL COOPERATIVES IN THE SOUTH*

By Joseph G. Knapp

I have been asked to briefly discuss the progress of agricultural cooperatives in the South with special reference to Negro participation.

Cooperation is no new thing in the South. There was a significant development of cooperatives in the southern States during the 1880's. Again the idea took hold in the early 1900's with the spread of the Farmers Union movement from Texas eastward. In early 1920's large regional cotton, peanut and tobacco marketing associations were formed throughout the South under the inspiration of Aaron Sapiro. These cooperatives promised much that could not be delivered and they have been gradually reorganized on a more practical basis.

My own contacts with cooperatives in the South date back from 1929 to 1934 when I was professor of agricultural marketing at North Carolina State College of Agriculture. Although the development of cooperatives in the South at that time lagged far behind that of other regions, I am glad to report that during the past dozen years the South has been rapidly catching up. In this recent period strong State-wide and local cooperative purchasing associations have been established in almost every southern State and similar advance has occurred in the formation of cooperative marketing associations. I recall writing some fifteen years ago that there were many cooperative deserts in the South with a few oases of well-developed cooperative associations. These oases have developed since into valleys and there are few areas in the South today where agricultural cooperatives are entirely unknown.

A study which I made two years ago indicated that of the 10,125 farmers marketing and purchasing associations in the United States at that time some 1,635, or 16.1 percent, were located in the 16 southern States. While these southern cooperatives had 23.6 percent of all estimated cooperative members they represented but 13.9 percent of the estimated total volume of cooperative business. These agricultural cooperatives in the South now represent a total volume of business of at least a billion and a half dollars annually. This study also showed that the rate of cooperative expansion in the South from 1941 to 1947 had exceeded that for the nation, both in number of members and in volume of business. Thus, there is no area in the nation today where agricultural cooperation is making greater progress than in the South. What does this mean for Negro farmers?

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*Notes of talk given at Conference at Tuskegee Institute, June 18-20, 1950, on "The Changing Status of the Negro in Southern Agriculture." (From Proceedings of Tuskegee Rural Life Conference, Rural Life Information Series Bulletin No. 3, pages 100-104.)

I believe that this has a great significance for Negro farmers for they, like white farmers, are served by these cooperatives. Furthermore, any extension of agricultural cooperation strengthens its development in other areas and increases the knowledge of cooperative business methods and procedures. It is fortunate that cooperatives in the South have not been developed along strictly racial lines for in many communities it requires the volume of both white and Negro members to insure adequate volume to achieve efficient operations. While there are a few highly successful Negro cooperatives, most Negro farmers who belong to cooperatives belong to cooperatives which serve both white and Negro farmers.

I believe that the situation with respect to participation of Negroes in southern cooperatives is far from understood in other sections of the United States where it is frequently assumed that the Negro is barred from active cooperative participation. To the best of my knowledge--based on observation over a period of years and the views of managers of a number of the most important southern cooperatives--Negroes throughout the South are generally afforded full membership rights, including the right to attend and participate in membership meetings.

In anticipation of this meeting I wrote to some twenty cooperative managers in the South to get their views on the extent of Negro participation in the cooperative which they serve. I was greatly impressed by the importance which many of these managers attach to Negro participation in their cooperatives, and I believe that some of these views can be advantageously quoted here:

> "My experience has been that in the areas where there are substantial numbers of Negro farmers, they are participating in the cooperatives in about the same ratio as the white people, and I believe that they show probably greater interest in their organizations. From my experience, I expect that as a class, Negroes are being helped more by cooperatives than whites because they have not had as good opportunities for participation from the general trade as they have from the cooperatives.
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> "We undertake to educate and develop our Negro patrons the same as we do all our farmers. In addition to receiving our house organ and mail going out to all members, and invitations to all membership meetings, our fieldmen work with them and help them in every way possible. We feel that the Negro is an important part of our organization."
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> "Negroes will do well to avail themselves of whatever cooperative services are available and if none are available there is no good reason why they should not step out on their own to give themselves the services needed. The white people in the South are conscientiously desirous of having the Negro farmers improve themselves."

"It is the desire of the openminded and fairthinking people of the South that the Negro be given fair and just conditions and that they be aided in every possible manner in the improvement of their position. Most of our leaders realize that our country can't be developed if one half of our population remains in ignorance and poverty. If for no other reason than the economics involved we can't afford to neglect nor hamper the progress they as a race are making. In short, this association is proud of its Negro members because of their loyalty and because of the progress they are making and with their continued cooperation we hope to be able to develop this country and make of it the kind of place both white and colored will be happy to own and live in."

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"Our experience has been a very good and pleasant one with Negro members. I think the cooperative has been a good thing for the Negro. Generally speaking, the average Negro farmer is a small farmer and therefore when he gets into a cooperative he immediately has the bargaining power of a large farmer. I think that in many ways they appreciate a cooperative even more than many of the white members."

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"In organizing our farm cooperatives and in the operation thereof all farmers, regardless of race or color, may become members thereof and participate in purchasing farm supplies and marketing of farm products in an economical manner. We think the fine work that has been done in past years by Tuskegee Institute to get Negroes to assume the full responsibility of citizenship and to work and save and acquire property and to observe and obey the laws of both God and man should be continued and expanded and when we get more of this kind of teaching spread throughout the South, in our opinion, we will have a much improved condition among Negro farmers, both economically and in their relation with white citizens."

* * *

"On the whole, the Negro member of a white cooperative is considered strictly as a farmer and is treated as such regardless of his color insofar as the economics of cooperation is concerned. Socially the racial prejudice exists in cooperatives pretty much as it exists in any other southern social function. Any racial prejudice is founded primarily on fear and when two races work together to solve common problems of that fear the prejudice usually disappears. That is pretty much what has happened in our co-ops."

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"In my opinion, one of the greatest problems confronting the South as a whole is the greatest development of untapped human resources found in our Negro population. It is only now dawning on the average intelligent southerner that it is possible to turn a liability into an asset by providing greater economic opportunities for the Negro. As a part of the development of this human resource our cooperatives are generally following an open-door policy. We have a number of Negroes in our own organization and there are no restrictions of any nature whatever as to the entry of others. I find that every forward-looking cooperative organization in the South has the same policy, as far as I know. We generally find that Negroes appreciate this policy and they

make good members. However, a great deal more educational work is required in order to acquaint them of the opportunities and possibilities involved in cooperative membership as well as the limitations. As far as I know, no organized effort of this kind has been undertaken and I think it is very badly needed."

I believe that the excerpts from the letters quoted above indicate that Negro farmers are not excluded from participation in the cooperatives of the South and that they represent a significant part of the South's cooperative development. It is believed that as cooperatives gain strength in the South this will benefit both white and Negro farmers in solving the difficult economic problems occasioned by the mechanization of southern agriculture. These problems will not be solved without honest study, toleration for the views of others, and patience. The cooperative represents a mechanism which more than any other can bring these qualities to bear in the solution of a serious economic problem.

THE DREAM OF CHARLEY MARTIN 1/

I think it very fitting on this occasion of your annual meeting which records and celebrates a great accomplishment in the agricultural history of the Southwest to recall that this achievement represents -- to Charles M. Martin -- the realization of a dream. For that reason I am calling this talk "The Dream of Charley Martin."

It was a little over ten years ago when I first heard of Charley Martin. About that time Dr. Stokdyk, then President of the Berkeley Bank for Cooperatives, had got acquainted with Mr. Martin, and they had given some thought to the possibility of converting the C. M. Martin Wholesale to a 100 percent cooperative association. This was not a new idea to Mr. Martin. Several years earlier he had proposed in a letter to the Board of Directors of the United Producers and Consumers Co-operative his willingness to transfer his business assets to the cooperative at actual cost value. However, nothing came of this first proposal -- largely because of lack of interest in changing the status quo -- since things seemed to be going all right at the time.

However, Mr. Martin was not satisfied to let things run, and when the opportunity arose he presented the problem to Dr. Stokdyk, a man of great vision and a strong advocate of farmer-owned and controlled cooperative associations. Dr. Stokdyk suggested to Mr. Martin that the problem called for research to see what could be worked out, and he suggested that such help might be obtained from the Cooperative Research and Service Division of the Farm Credit Administration. Following up this visit, Dr. Stokdyk urged me, at the invitation of Mr. Martin, to stop at Phoenix at the first opportunity to see if we could be of any assistance on the problem.

1/ Talk by Joseph G. Knapp, Associate Chief, Cooperative Research and Service Division, Farm Credit Administration, at Annual Meeting of United Producers and Consumers Co-operative Association, October 18, 1951, Phoenix, Arizona.

I well remember my first visit to Phoenix in August 1942 and my conversations with Mr. Martin and Mr. Walter Smith, President of United Producers and Consumers Co-operative. I was a little like the proverbial man from Missouri -- who had to be shown. It didn't seem reasonable that a man, of his own volition, would desire to turn over a prosperous business to the farmers who were his customers. Generally, such proposals come from someone who desires to unload a failing business on to a group of innocent farmers.

However, I am glad to say that it didn't take me long to see that Mr. Martin and Mr. Smith were in earnest. I soon convinced myself that the proposition was made in good faith, that it was Mr. Martin's desire to explore the problem -- to see if the dream could be made to work on a permanent basis. Mr. Martin was intrigued by the idea of shifting the ownership of his business to the farmers of Arizona -- his friends and neighbors who had helped him to business success. Mr. Martin was one of those rare people who realize that "you can't take it with you." He preferred to use this opportunity to help his farmer neighbors now than acquire a larger estate for the future.

However, Mr. Martin was -- and is -- a realist. He fully understood that it would be ridiculous to turn over his business to farmers unless they were properly organized to receive it, and trained to properly safeguard and manage it. He knew from long experience that "something for nothing" is little appreciated -- no matter how well intentioned the gift.

My first visit to Phoenix was pleasant, but the problem didn't come to a head. It was agreed that we would analyze the available records and data and see what might be worked out as a plan for consideration. My own reactions to the visit were recorded in a memorandum written upon my return to Washington, in which I said:

> "There is a definite opportunity for reorganization of the United Producers and Consumers Co-operative on a more truly cooperative basis for the benefit of the agricultural producers in the Salt River Valley, and perhaps for agricultural producers throughout the State of Arizona."

At that time it was apparent that Mr. Martin and Mr. Smith were deeply interested in what might be worked out. I recall that Mr. Smith came to Washington that Fall and that this gave us an opportunity to examine the legal aspects of the problem of conversion with "Judge" L. S. Hulbert, then with the Office of the Solicitor of the United States Department of Agriculture. I recall that he was of the opinion that there were no legal obstructions to converting a privately-owned business to cooperative ownership, and that his main concern was that the plan under consideration could achieve the end in view -- farmer ownership and control on a true cooperative basis.

I did not return to Phoenix again until September in 1943 and by that time all of us had had quite a lot of time to mature our thoughts on what might be worked out. On this occasion Mr. Martin and Mr. Smith called together the members of the Board of the Producers and Consumers Co-operative, along with a select group of other agricultural leaders and public officials in the State, including such men as E. J. Mehren and Harry F. Michael. At that time Mr. Martin formally proposed to transfer his business interests to cooperative ownership as soon as a satisfactory form of organization could be worked out to insure success. Mr. Martin was determined on one point. He had to feel confident that the new plan would work.

When one looks backwards it may seem like a simple matter to change a business from individual to cooperative ownership, but when one looks forward -- as we were trying to do -- there were all kinds of questions to answer. Should the proposed organization be set up as a federation or as a centralized association? Should it absorb the United Producers and Consumers Co-operative in the plan or leave it as a separate association? What was to be the basis of membership -- individuals or local associations? Could the transfer of ownership be facilitated by the use of revolving fund certificates, etc., etc.? I remember that we examined the structure of several regional cooperatives to get ideas that might be adapted to Arizona conditions.

I have gone into this history in some detail because it illustrates the painstaking care that was given to insure that the proposed plan would work. We didn't solve all of these and other problems at this time -- but we did do one thing -- we agreed that the job could be done and that it was worth doing. Moreover, the plan was beginning to jell, for it was decided that the name of the new cooperative organization to be formed to acquire Mr. Martin's interest in the C. M. Martin Wholesale would be the <u>Southwest Cooperative Wholesale</u>.

Several months elapsed before the baby was born -- at 6 a.m. on March 1, 1944 -- for organization documents had to be drafted and carefully reviewed. The papers as finally approved included many helpful suggestions from "Judge" Hulbert, as well as from the attorneys of the Farm Credit Administration at Berkeley, but of course the responsibility for the final documents of organization was that of the incorporators.

In a nutshell, the plan that was worked out provided for the transfer of Mr. Martin's interests in the C. M. Martin Wholesale, including about $50,000 in his bank account, to the newly-formed Southwest Cooperative Wholesale, which would have as members not only the United Producers and Consumers Co-operative, but other cooperatives in Arizona and California. Under the plan, Mr. Martin accepted preferred stock in the amount of $648,000, with dividends in the nature of interest set at the rate of 2-1/2 percent, for the value of his facilities and equipment at cost less depreciation, and inventory at cost. Under the arrangement, savings from the operation of Southwest Cooperative Wholesale would be used periodically to redeem the preferred stock held by Mr. Martin until such indebtedness as shown by such stock holdings was finally liquidated.

This is the point we have now reached in a period of seven years. Within the past hour the Southwest Cooperative Wholesale has completed paying Mr. Martin for his interest in the enterprise, and it now belongs 100 percent to its member associations which in turn belong to their farmer owners. From now on, as savings are made, they will be available for distribution in cash to the farmers who use the association in proportion to their patronage or be used to expand facilities and services in their behalf.

There is one thing that we should keep in mind at this point. The Southwest Cooperative Wholesale was formed in March 1944, seven short years ago, and it <u>is</u> the <u>Southwest Cooperative Wholesale</u>, under the management of Mr. C. M. Martin, that has paid off the preferred stock representing Mr. Martin's interest while nearly doubling the assets and business volume of the organization. Although Mr. Martin's <u>legal control</u> of the organization ceased over seven years ago, and although since that time he has been technically interested in the organization only as a creditor, he has continued to have a burning zeal in making this enterprise a success. Under these circumstances, full appreciation should be given to Mr. Martin for the remarkable record he has made for the organization as its manager. The sincerity of his interest in making the plan work is evidenced by his refusal to accept any salary for his services, which in itself has represented a significant financial contribution to the success of this program.

This achievement can best be shown by a few figures. During these seven years the business volume of the Southwest Cooperative Wholesale has increased from $1,972,314 in 1944-45 to $3,497,325 in 1950-51, or by 77 percent. The amount of savings, as indicated by revolving fund certificates, has increased from $74,457 in 1944-45 to $249,204 in 1950-51, or an increase of 235 percent. Total assets which stood at $783,309 on February 28, 1945, at the end of the first year, had increased to $1,399,622 by February 28, 1951 -- seven years later -- an increase of 79 percent. Moreover, as Mr. Walmsley has just stated in his financial report to you, the Southwest Cooperative Wholesale now has a current ratio of over 8 to 1, or $8.00 in current assets to each dollar in current liabilities. It should be remembered that in business circles a ratio of 2 to 1 is generally considered satisfactory.

With the growth of savings, the net worth of the Southwest -- that is, the ownership equity of the members -- which started at zero less than eight years ago, has grown to well over one million dollars. In this relatively short period the Southwest has fully repaid the preferred stock issued to Mr. Martin amounting to $648,000. This, I think you will agree, is a remarkable achievement in business operation -- for which you as Arizona cooperating farmers can well be proud. You have demonstrated that cooperative business can be efficient business, and financially sound business as well. Moreover, financial records do not tell the whole story. Since the Southwest was formed you have received added services and satisfactions through your own ownership and participation. You now have your own cooperative, responsive to your own control. Your organization is respected as a major economic enterprise in the Southwest.

What you farmers have been doing is to buy a valuable and successful business. Instead of Mr. Martin owning the business you farmers now all have an equity in that business.

Through United Producers and Consumers Cooperative and all the other associations which are members of the Southwest Co-operative Wholesale you all have ownership equities in the business formerly owned by Mr. Martin. Just as you have more money to spend for other purposes after you have your ranch or farm paid for there should now be more money available to the patrons of United and the other local associations because they have the business they have purchased paid for.

Moreover, I want to remind you patrons of United and other member associations of the Southwest that the prices you have paid for articles and goods obtained through the Southwest are, as I understand the facts, substantially less than what you would have otherwise paid. In other words, you got substantial "cash discounts" at the time you made your purchases. You people cannot say that you have not already received cash benefits from the Southwest Cooperative Wholesale through United Producers and Consumers Cooperative because the cash discounts you have received in the form of lower prices would undoubtedly amount to a tidy amount of money.

I have not hesitated to give Mr. Martin generous credit for his altruism in getting the program started and established on a strong basis, because his altruism has been the foundation stone of this remarkable achievement.

This story that I have tried to tell very briefly is a success story -- the story of a man with a dream who gave unsparingly of himself and of his resources to make the dream come true. So far, the major contribution to the success of the Southwest Cooperative Wholesale has been made by Mr. Martin with the loyal help of President Walter Smith. The contribution of the members of the associations has been easy and painless -- through their use of the services of the enterprise they have gradually acquired the facilities for rendering them.

This poses a real problem for the future. Who is going to manage the Southwest Cooperative Wholesale whenever Mr. Martin retires -- and give it the type of leadership that it has enjoyed? Unless the organization can develop capable leadership through its own Board of Directors Mr. Martin's dream will never be completely realized.

I am firmly convinced that the Southwest Cooperative Wholesale has a great future if the farmers of Arizona accept their responsibilities in making it a success. In the past they have leaned heavily on Charley Martin to make a go of it. In the future they must realize that it is their own and their collective responsibility to see that it goes -- as Charley Martin has made it go.

I would like to mention here an epitaph on a tombstone in New Hampshire that Dr. Stokdyk once called to my attention. It went like this:

> "My son -- that which I bequeath thee you must own anew if you would keep it."

To make my meaning clear, Charley Martin has largely made possible the strong cooperative organization you now have -- but only you farmers of Arizona can keep it and build it through your common efforts.

I might also recall to you the sad tale of the goose that laid the golden egg and was cooked for her efforts. A cooperative can lay golden eggs of service, savings and satisfaction but can continue to lay them only if members are as much concerned with putting their support into it as they are with realizing cash benefits from it.

The future of this great cooperative achievement now lies in your own hands -- if you will reach out and accept your responsibility to see that it continues on the course which has been set. Mr. Martin as your leader has demonstrated how the Southwest Cooperative Wholesale can serve your interests -- but only you folks in Arizona and the Southwest can carry on the demonstration. This is an important day in the history of agriculture in Arizona. From now on -- since you have paid for your facilities through savings made possible by your patronage -- you will largely receive the benefits of your cooperation not only in the form of cash discounts but in the form of patronage refunds as well. This evidence coming back to you that it pays to cooperate should also do much to encourage your full support.

With the payment this past week of patronage refunds in cash as evidence that the Southwest Cooperative Wholesale is now firmly on its own feet -- we can say that Charley Martin's dream has become a fact.

You now have a fine cooperative organization to serve you. It is set up -- well-managed -- and doing a fine job. Now the question is -- are you going to preserve this organization and enlarge its scope and usefulness?

I believe the answer lies largely in the understanding that you farmers have of your cooperative. If you have the facts, and train yourselves to use them, you can't help but have a fine organization. If you fully realize that this organization is your own organization -- as much as your farms are yours -- you will intelligently operate and preserve it as you would your land. You will see that you select the finest kind of men to serve you as directors, and you will expect them to provide the type of fine management that you have had in the past.

I realize that there are those who observe the growth of farmer cooperatives with misgivings. They don't like to see farmers running their own businesses. These people are not usually concerned with the farmer -- except as a source of business revenue for themselves.

But don't let any of these people kid you that cooperatives are not part of the American free enterprise system. They are part of the American way of life. They help to make your farming operations more profitable and give you a bigger stake in Arizona and in America. In this country citizens are always free to decide whether they will do something themselves or pay someone else to do it for them. Through cooperatives people do things for themselves. Let's get that idea over to the people of this country.

THE FUTURE OF FARMER COOPERATIVES 1/

By Joseph G. Knapp, Associate Chief
Cooperative Research and Service Division
Farm Credit Administration, U.S.D.A.

"What does the future hold for farmer cooperatives?"

To answer this question partially we must anticipate and try to answer many other questions. Will there be peace or war? Will we preserve our free enterprise economic system? Will public opinion be favorable for cooperative advancement or will cooperatives be penalized by adverse legislation? Will there be a continuation of technical agricultural progress?

In this talk I am going to assume that destruction by total war does not occur, and that we will preserve our free enterprise economic system and public attitudes favorable to organizations which are economically and socially effective. If we preserve our free enterprise system--and strengthen it--there will be a place for cooperatives. Moreover, I feel confident that this will also mean that we can look forward to a continuation of technical agricultural progress.

In a stimulating presidential address to the 50th Annual Convention of the Southern Agricultural Workers which was held in Atlanta during January, P. O. Davis, Director of Extension in Alabama, took a birdseye view of the progress that had been made in southern agriculture since 1900, and then proceeded to look ahead to the year 2000. He took the year 2000 as the basis of his forecast into the future on the wise ground that if he should be proved wrong there would be few of his audience around to argue with him. The main impression I got from Mr. Davis was his optimism. He saw no reason why we should not have a much finer rural civilization in the year 2000 than today, for we have so much more understanding of how to develop agricultural prosperity than we ever had in the past. He also saw agricultural cooperatives playing a much greater role in the year 2000 than today. According to his crystal ball, real farmer cooperatives will be "bigger and better in service to both farmers and non-farmers."

1/ Notes for talk at Annual Meeting of Farmers Cooperative Grain Dealers Association of Oklahoma, Enid, Oklahoma, April 17, 1952.

Today, in looking ahead, I am going to play safe too by looking a long way ahead. Whether I am right or wrong in the year 1975 or 2000 cannot be determined today. However, what we hope to see achieved by the year 1975 or the year 2000 and how we plan to achieve it may be quite important.

At least, like Mr. Davis, I am optimistic. There is little to be gained in assuming that the world is coming to an end or going to the dogs. I think it can be established that most of the significant achievements in the world have not come from gloomy people. Men like Thomas Jefferson, Abraham Lincoln, Henry Ford, Thomas Edison, and the Wright Brothers, were all fundamentally optimists. They saw difficulties but they did not consider them insuperable. People of vision are forever seeing what can be done or accomplished. When vision is lost, civilizations decay--so let's not be afraid of vision.

I might as well give you another one of my personal views. I am a firm believer that cooperation is going to play an ever-increasing role in the future. I can't see logically any other road ahead which offers so much promise. Unless people can learn more and more how to work and live better together the outlook would indeed be bleak. The real future of the world as I see it depends upon how well we can subordinate combative instincts and replace them with cooperative procedures. I do not believe that it is unrealistic to believe that people can learn more and more how to do things well cooperatively.

In my own experience during the past 25 years I have seen a tremendous growth in the capacity for cooperation among rural people. I do not think that we have reached the end of this road. Rather, I believe we have simply started down the highway.

Before looking forward, let's take a swift look back to see where we are. A person can't really understand anything unless he knows something of its history. The United States today is not just a powerful nation. It is a nation which has character today because it represents principles hammered out in its 176 years of glorious history since 1776. We are a powerful nation today because we have built on the democratic foundations given us by Franklin, Washington, Jefferson, Madison, Hamilton, John Adams and many others.

Cooperation also has a long and honorable history in the United States. I don't think we have made enough of this history. If people appreciated more the struggle which has made their cooperatives possible they would feel greater responsibility for the cooperatives which serve them today.

I know a man who says, "I am not interested in cooperative history. What I am interested in is cooperative progress." His statement sounds fine but frankly, what is cooperative history but a study of the record of cooperative progress? To understand how to progress you must have some knowledge of how progress was made.

I have been working with cooperatives for almost 30 years and I am proud of my association with this bit of history. It gives me a real thrill to recall that I was first in Enid back in the summer of 1925 when Cecil Munn was the manager of the old Southwest Wheat Growers Associated, which may mean little to many of you, but it was an important organization then.

At that time, as a college student, I was preparing a thesis on the old wheat pool movement, and Mr. Munn had graciously invited me to spend a week in his office to see how things were done. Think of how much has been accomplished here in Oklahoma in these intervening years in building your great cooperative grain marketing system which is a national monument to self-help.

As I look back over these years I recall the spellbinding power of Aaron Sapiro, the analytical ability of Edwin G. Nourse, the astuteness of Charles W. Holman, the brilliance and hard-headed business ability of Ed Babcock, the vision and drive of Howard Cowden, the warm friendliness of Ralph Snyder, the humanitarianism of Dr. Henry Bennett, and the equally important contributions of many, many more cooperative leaders like your own Roy Bender and E. W. Puckett, who have helped give agricultural cooperation meaning in the United States. These men have stood and stand for something really significant in the economic and social life of this nation.

I can remember when the future of cooperation was much less bright than it is today. In many areas where one wouldn't expect cooperatives to prosper I have seen them, with determined leadership, rise and flourish. When one has seen progress and <u>knows</u> what can be done it gives confidence in looking ahead.

It seems to me that the <u>potentials</u> of cooperatives have only been scratched. We have many great cooperatives in the United States today but we have a long way to go to make full use of the cooperative idea. To see what can be done in the future we must build on what we now have.

In preparing for this talk I got the views of several cooperative leaders on what they saw ahead. They gave me almost every kind of answer--but the general consensus was that cooperatives have a much greater future than past. Some view with alarm the problem of raising sufficient capital, the continuing anti-cooperative agitation, the competition of industry for managerial talent and several are concerned with a growing complacency which has come with the rising price level. On the whole, I can detect little defeatism. There is a healthy general attitude that cooperatives are on the right track and gaining momentum.

"Progress" depends upon one's age and point of view. Older people think more and more of the past. If they have done well they are inclined to rest. To do big things one must see big things possible of accomplishment. I recall a conversation which I had about 20 years ago with a prominent agricultural leader in North Carolina. At that time, as a college employee, I was advocating the development of a State-wide cooperative organization, and I was very optimistic as to what might be accomplished. My older friend was less enthusiastic. He was overwhelmed by the enormousness of the job of organization that I saw ahead. I recall that he said, "Why, it would take 25 years to put across the program you propose." I remember saying in reply, "You are perhaps right, but I am a young man and I will be only fifty five in 25 years. On the other hand, you will probably be 75. To me, 25 years isn't long to do a job as important as this." Let me give you the sequel to that conversation. We did set up the organization. It didn't take the 25 years to do the job we had in mind. This year--in less than 20 years--that organization, the F.C.X. of North Carolina, has a net worth of 6-1/2 million dollars, over half representing savings, and will do a combined retail and wholesale volume of business between 37-1/2 to 40 million dollars. However, if we hadn't started the job when we did it might not have been done.

A few weeks ago I had the opportunity of sitting in on a conference of economists who considered the opportunities and feasibilities for further cooperative development. These men looked at the question quite objectively and they found many fields in which there was not only a need for further cooperative development to better serve producers or consumers but a good basis for believing that such cooperative development was achieveable.

Let's not worry about what we will do if and when we reach our present goals. We or our successors can handle that contingency when we or they come to it. Let's not be like the man who was so worried about how he would invest a million dollars if he had it that he couldn't keep his mind on the job he had and lost even that.

Dr. Edwin G. Nourse wrote a little book a year or so ago called "The 1950's Come First." His argument was simply this. What the future holds for us will largely depend upon how we use the 1950's--which are with us here and now. This is certainly true for the co-ops. Their great opportunity is available to them now. What are they doing with each day as it comes? Are they marking time, waiting for a leader to jack them up or are they jacking their leaders up?

Are cooperatives giving enough thought to future planning? Are they supporting research and encouraging research in State colleges and universities? Are cooperatives dynamic or are they static? Personally, I don't think that cooperatives are sufficiently alert to future problems. Complacency slips in when we begin to see or feel success. Research to find ever better methods is the best tonic I know for complacency.

We must break down the idea that cooperation is just another form of business. It is a form of business, true enough, but it is a method of business that is different. Cooperatives are participants in a crusade to improve our whole system of living.

Cooperation gives a man or woman a voice in the economic affairs that affect him. It gives him a share in savings brought about by efficiency as a method of organization adapted to the needs of our family farm type of agriculture.

I would like to ask you a question. What would rural life be like today without cooperatives? If every cooperative were to close its doors or be forced out of business, could we depend upon the thus emasculated free enterprise system to do the job now being done for the American farmer as well as it is being done today? As one of my cooperative friends expresses this, "We must teach farmers that cooperatives are not to be judged so much today by what they are doing for them, but rather what they are keeping others from doing to them."

The history of Rome and other great civilizations show that they wither away unless they become continuously more democratic. In Rome the growth of an aristocracy gradually brought on stagnation, sterility and indolence. Where control becomes concentrated in a small ruling class, sooner or later something is going to pop.

Cooperatives hold part of the answer on how to keep a nation vigorous, for cooperatives give each man a greater share in the economic life of his country. Cooperatives give farmers a stake in our economy, in our American business system. I can't think of a more effective safeguard against Communism, for a cooperative belongs to the people whom it serves and gives them a personal stake in the preservation of free enterprise.

How much is cooperation worth to us? How much should we be willing to fight for it? I think the last several years have proved that there are a growing number of people willing to fight for cooperation. However, I sometimes think that people are more willing to fight for cooperation than they are to work for it. If cooperation is worthwhile fighting for, it certainly should be just as worthwhile working for.

How much are cooperatives contributing to our lives? Just from a dollar basis the savings going back to farmers in patronage refunds run into hundreds of millions of dollars annually. In addition, what about the savings brought to members and nonmembers because of the competition which cooperatives set up which forces other enterprises to give farmers higher prices for their crops and lower prices for their supplies? What about the quality of supplies that you buy? Do you remember the period many years ago when cooperatives were established because that was the only way farmers could get dependable seed, unadulterated feed and fertilizer without excess filler?

In peering into the future, there are certain trends that we can be fairly sure of. For one thing our rate of population growth is about 2,000,000 a year which will give us an increase of 25 percent of our population during the next 25 years. In other words, the increase in population by 1975 is expected to total about 38 million persons, which is about the present population of the 18 Western States which include Texas, Oklahoma, Kansas, Nebraska, the Dakotas and all States to Coast. This population growth will call for a great expansion of agricultural production--of perhaps 20 percent if we maintain present per capita rates of consumption. If cooperatives are to keep only their relative position they will thus need to gradually raise their annual volume of business until it reaches 12 billion dollars around 1975.

To increase agricultural production to meet the anticipated population increase it will be necessary to improve the efficiency of agricultural production on existing acreages since there is now little unused land. This means that farming will become more and more dependent upon technological and scientific advances involving the use of more fertilizer, insecticides, specialized equipment, etc. Cooperatives serving the needs of farmers will need to supply farmers with assistance on their production and marketing problems growing out of this more complex form of farming.

In passing, I think we may sometimes take too narrow a view in looking at the role cooperatives play in agriculture. While marketing and purchasing cooperatives are relatively the most important, there are many other kinds of cooperatives: the rural electric cooperatives; telephone cooperatives; the mutual insurance cooperatives; mutual irrigation cooperatives; the credit unions; the P.C.A.'s and N.F.L.A.'s--and let's not forget the banks for cooperatives; grocery cooperatives; health and hospital associations; burial cooperatives; and cooperatives for many special services, such as trucking, ginning, storage, etc., etc. Cooperation in the aggregate plays an enormous role in agriculture. When we think of the future of farm cooperatives let's keep all kinds of cooperatives in mind.

In looking ahead, let's realize also that there is no trend away from big business organization back to simple competition of the 1880's or even the 1920's. Today it takes large business organizations to keep up with the procession. If the farmer is going to have some voice in the way the economy functions he must work through strong cooperative associations.

It is only by joining together that farmers can have some control of their markets, and get the full results of efficiency.

In an important new book entitled "American Capitalism--the Theory of Countervailing Power," John K. Galbraith points out that cooperatives came into being to help correct the balance in our industrial system and that the large cooperatives of today are important agencies in keeping this balance.

Strong cooperative organizations can perform for the farmer services that he needs to do a good job in his farming business, provide him with good quality production supplies at lowest possible cost, and help him in marketing his products most efficiently.

Cooperatives have developed in agriculture as a means of increasing agricultural efficiency and giving farmers a greater share in the results of efficiency. Cooperatives are part of the process of integrating agricultural production and marketing. The process is still continuing and promises to continue. The economic basis for cooperation promises to be as strong in the future as in the past.

When we look at cooperatives today we are apt not to see the forest for the trees. There are many cooperatives--and many strong ones--but there is still a long way to go. Although the total volume of business of marketing and purchasing business on the basis of an estimate of 8.7 billion in 1949-50 now amounts to almost 10 billion dollars annually, this represents only about 20 percent of the total marketing and purchasing business done by farmers.

I am not advocating that cooperatives should do all of the farmers' marketing and purchasing business. I am simply saying that they now only do one-fifth of it. They can still grow a lot without doing more than half. Let us be frank with ourselves. Is cooperation at the saturation point? Let's look around. I think you will agree that many communities which you know are 10 percent cooperative, 20 percent cooperative, 40 percent cooperative, etc. There is a long way to go if the 10 percent, 20 percent communities are brought up simply to the 40 percent standpoint.

When I was in Ireland a number of years ago I remember visiting a cooperative where all but 100 out of 2,000 farmers in a given agricultural region were members of the farmers' cooperative. I asked the manager whether it would be difficult to get the other 100 into the fold. He replied that he didn't know whether he wanted them, because there was about one farmer out of 20 who wasn't fit to be a cooperative member and he was glad to let his competitors have them, for this made his work easier.

To my mind, the concept of a Cooperative Commonwealth is a visionary dream of no practical significance. I can't imagine all people in cooperatives. If they were all in, cooperatives would cease to have the function that we associate with satisfactions from participation. To me, cooperation is a voluntary system in which there must be open to everyone an alternative, to join or not to join.

In Scandinavia a much higher proportion of agricultural business is done through cooperatives than is done through them in the United States. In the United States also there is great variation in the degree of cooperative activity. If all areas were as well developed as our best areas in our leading cooperative States--Minnesota, Wisconsin, California--the total cooperative marketing and purchasing business in the United States would greatly exceed what it is today.

I got to thinking about this problem and I said to myself--if cooperatives were as important in all States as they are in the six States which are most highly developed cooperatively (Minnesota, Illinois, California, Ohio, New York, and Wisconsin), how much larger would the total United States volume be? I asked Miss Gessner who is in charge of our History and Statistics Section to work this out for me, and she came up with a figure of 55 percent. That is to say, assuming that our present volume is $10 billion it would be $15.5 billion if all States were as highly developed cooperatively as the six best cooperative States.

I then asked her to work this out if all States were as well developed as Minnesota. She came back with a growth of about 76 percent. If all States were as advanced cooperatively as Minnesota the national total thus would be about $17.6 billion. You may ask, is there still any opportunity for cooperative growth in Minnesota.

I put this question up to Dr. O. B. Jesness, Chief of the Division of Agricultural Economics of the University of Minnesota, to get an unbiased answer. In his carefully written response Dr. Jesness said: "Taking the various factors I have mentioned above into consideration, I think one might hazard a guess that it is not beyond the realm of possibility that over a period of some years our cooperatives might expand the total somewhere between a quarter and a half."

How important would it be if the whole country were as cooperatively saturated as Minnesota? In my opinion it would be "highly important" for this would mean greater acceptance of the cooperative idea by farmers and the whole business community. It would also extend the position of cooperatives as "pace-setters" in business performance.

To realize cooperative potentialities an aggressive policy of education in cooperative principles and practices is called for. Cooperatives should not go on the defensive. The smear attacks on cooperatives have endeavored to cast doubts on the basic Americanism of cooperative methods. These allegations cannot be allowed to go unanswered any more than any man of character can stand by and be publicly besmirched. Lies must be answered with honest fact. We should teach and demonstrate that cooperative methods are the finest flower of American free enterprise. Where is there any type of enterprise more free, more in keeping with the American spirit of independence? Is it better to do a job yourself? Is there any reason why people should not do things for themselves in cooperatives which are set up for the purpose? They may make a failure of the attempt but is there any reason why they should not have an opportunity to try?

In some areas we have done a good job of teaching and training in cooperation, yet how few cooperatives directors know how to be good directors. The future will depend on the use of social as well as economic skills.

Are cooperatives efficient enough? They must be <u>everlastingly</u> working to increase efficiency.

Too many cooperatives are shortsighted. They do not plan far enough ahead. They build facilities that can't be economically expanded. They don't plan location of plants and warehouses to take into account possibilities of growth. They think only of immediate problems, whereas cooperatives should build for the long-time future. Research--or the scientific analysis of problems to find solution--is the door to progress, but too many cooperatives have been slow to find this out. As one friend writes me, "Co-ops must recognize we have passed the stage where we can be successful employing trial and error methods. Therefore, we must spend considerable sums for research and then use such research not only to bring about technical improvements, but also in our educational programs to build confidence among the membership."

There are several reasons why I am optimistic with regard to the future of agricultural cooperatives:

1. Farmers have learned how to organize and operate cooperatives efficiently. It is encouraging to see how farmers speak up at their cooperative meetings as compared to several years ago. We now have a great number of cooperatives which are proving that cooperative principles can be made to work.

2. Cooperatives are making great strides forward in their membership educational work, in employee training, in management performance. The cooperatives of today are on the whole better and stronger cooperatives than they were 5 or 10 years ago.

3. The farm youth of today, who will be the cooperative members of tomorrow, are receiving more and better education in cooperative principles and methods than ever before. We will have better informed and trained members in the cooperatives of tomorrow because of this basic educational work.

4. Cooperatives are doing more planning ahead. To a much greater extent, problems are being anticipated by research, and cooperatives are keeping up with the procession.

On the other hand, there are trends that give me concern:

1. The enthusiasm and drive of the pioneers has to some extent slowed down and cooperation is too frequently being "taken for granted." I sincerely agree with the statement that "No great movement ever succeeds in the long run by taking the line of least resistance."

2. As cooperatives have become large organizations there is a tendency for them to lose their membership vitality. They become more concerned with protecting their past than meeting the problems of the future.

3. There is a tendency for cooperatives to lose their sense of inspiration and vision. The real key to the future is leadership. Have we lost the key?

Cooperatives must fix sights on opportunities for cooperative improvement rather than pat themselves on the back for limited successes. Let's take an inventory of cooperatives and ask ourselves -- How do they measure up in:

1. Management efficiency?
2. Organizational structure?
3. Financial stability?
4. Public relations?
5. Member relations?
6. Research and planning?

A year or so ago I gave a talk on cooperative efficiency. I came to the conclusion that cooperative efficiency in the highest sense of the term--which implies doing not only a good business job but also a good job as a cooperative--left a lot to be desired. We have many cooperatives in the C and B class and quite a number still in the D, or "just-get-by," class, but only a small proportion in the pace-setting A class.

Another tendency--which must be carefully guarded against--is for cooperatives to lose their high sense of moral responsibility. One of the things that has built the cooperatives has been their acceptance of moral obligation to their members and to the public. A cooperative cannot permit itself to be measured by "get-by" standards.

We must remember that cooperatives now have tremendous responsibilities. Just the other day I read an article by Vance Rucker entitled, "Storage Means Responsibility," in which he pointed out that cooperative elevators in the Ninth Farm Credit District alone had built more than 40 million bushels of storage in the past two years. He stated that with wheat at $2.25 per bushel this meant that these elevators must guarantee about 90 million dollars worth of wheat (as to weights and grades). I think it is clear from some of your sad experience with sick wheat that cooperative elevators must operate so as to fully protect themselves on this enormous risk. It can be done, but only if cooperative members and directors and their employees fully know their obligations and keep in position to meet them. A few failures of cooperatives to live up to their responsibilities could do untold harm to confidence in the cooperative idea. Maybe it is fortunate that cooperatives must be on the defensive, live in glass houses, and always keep their powder dry.

Another real problem of cooperatives is to develop adequate capital. A farmer realizes that he needs capital to run his farm but he oftentimes seems to feel that his cooperative should be self-generating. He begrudges a few dollars to his cooperative for capital while he freely spends whatever is needed for his own equipment. If cooperatives are to take on larger responsibilities they will need to obtain sufficient capital from those who are served.

While it is true that cooperatives have made great progress in the management of their financial affairs there is no question but that they will need much greater financial strength and stability if they are going to take full advantage of the opportunities that lie ahead.

Cooperation must attract and be attractive. Has cooperation lost its appeal? The future of cooperation depends upon trained leadership. People need to be shown visions, for as H. E. Babcock used to say, "An organization grows on the commitments made by its leaders." Are the cooperatives now developing the kind of men who have given us the vision on which we have built our present cooperatives? If there are not young men alert to the opportunities of the future in cooperatives there is something wrong which must be corrected.

We must teach people how to cooperate, show them the satisfactions. We must place less stress on the pecuniary benefits and more on the personal satisfactions.

Cooperation is a cumulative process. If people become trained in cooperation as the natural way to conduct an economic enterprise they will like the method. It is natural for sons to follow their fathers. I remember reading the results of a study made by sociologists in which they found that an increasing number of cooperative members had fathers or mothers who were participants in cooperatives. In many families there is the tradition of belonging to cooperatives. It is a natural development. We haven't made full use of this idea. We haven't yet learned how to make cooperation a natural expression of community living.

One of the great problems of cooperatives in the future will be to maintain their idealism--their high objectives. They are apt to get in the hands of business managers who think more of their own jobs than the jobs to be done by the organizations they serve. The experience of the great British consumers cooperative movement bears this out.

In their excellent study of "Consumers Cooperation in Great Britain," published in 1938, Professors Carr-Saunders, Florence and Peers point out that:

> "There is in the history of every great movement, such as this, a danger of stagnation after a period of vigorous expansion. ... The strength of the original impetus may grow less if, in the very profusion of growth, consciousness of purpose is diminished or lost. Size and complexity may become dangerous in themselves if there is no corresponding increase in directive energy or in the general appreciation of ends. ... "

I should like to quote one more statement from this important study:

> "Development -- must be purposive, not merely opportunistic. An effective increase in cooperative membership, and in the cooperative trading of members, cannot be secured by the ordinary methods of business advertising, even if these were more effectively used than they are. It can only be achieved by spreading a knowledge of cooperative principles and aims, and by a logical development of the capacity to satisfy, in the most efficient manner possible, and to an increasing extent by means of its own resources, more and more of the wants of a growing body of members."

What then does the future hold for farm cooperatives?

To my mind, the answer largely depends upon the cooperatives, themselves. It will depend upon such factors as the following:

1. Wise and inspired leadership.

2. Continuous education of leaders, members, and the general public.

3. Efficient performance and managerial competence.

4. Sound organizational structure.

5. Planning based on research.

6. Provision for ample financial resources.

7. Ability to attract personnel.

All of these things will give satisfaction in being served.

Some of you may have heard Charles W. Holman when he addressed the American Institute of Cooperation at Stillwater two years ago. He recounted the days around 1925 when great cooperative achievements were taking place in the United States. I recall his closing words:

> "Then we were young. Then we were fighting the battles of a young movement. Then we thought the ideal of more importance than the penny profit.
>
> "Am I wrong in saying that 1925 marked the Golden Age of Cooperation in America?"

No, Mr. Holman--it was a Golden Age then, but it is still a Golden Age in American Cooperation--and in the future it can be an even richer age in cooperative achievement and satisfaction.

As Emerson maintained:

> "This time, like all other times, is a very good time, if we but know what to do with it."

GROWING PAINS OF PURCHASING COOPERATIVES 1/

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When I was given this topic I thought I knew what it meant. Now, I am not so sure.

It seemed to me that I should first do a little research on the meaning of "growing pains." I couldn't find much in the dictionary except that growing pains are neuralgic pains associated with rapid growth during adolescence. This didn't mean much for my purpose--for the assumption was that such growing pains are of little permanent importance.

While I was warming up on this I happened to mention my problem to a friend and he asked me if I had heard the popular song, "Baby, they are just growing pains." He played it for me on his victrola and I was quite impressed. In the song a maiden tells her troubles to a young man and he crooningly assures her that all will be well for she's just got growing pains which will gradually pass away. Although helpful, this wasn't exactly the idea that I could hang a speech on to.

Next, I consulted my wife, for I remembered that she had recently been concerned over the "growing pains" of our 16-year-old son. He had all kinds of aches and pains while jumping up a foot in two years, and we frequently sent him down to the doctor to see if he had anything serious. "Just growing pains," said the doctor, "but let me know if they continue."

My wife offered this good observation, "Doctors are now afraid that such pains may be signs of rheumatic fever--they don't take them so lightly as formerly."

I dug into this lead and found a very interesting article in Today's Health by Ethel Strattan, entitled, "Can Rheumatic Fever Be Wiped Out?" In this article she describes how a boy came down with rheumatic fever, the greatest killer of children, while his mother scolded him for complaining over what she thought were "growing pains."

1/ Notes for talk given at 19th Annual Meeting of National Cooperatives, Inc., Chicago, Ill., September 16, 1952.

The author points out: "The severity of the symptoms varies greatly. Often they are not sufficient to stop school or work. It is to be hoped the day is gone forever when mothers smile at their children with aching joints and say, 'It's just growing pains, dear. They'll go away in a little while.'"

Now, I was getting somewhere -- "growing pains" were beginning to take on importance. If doctors view them so seriously, they must be worth looking into. Maybe co-ops are like kids and when they think they have "growing pains" they may have something far worse.

Then I began to wonder about the psychological significance of such pains, for many baffling diseases have origins in the unresolved emotional upsets of childhood. A boy or girl with growing pains might get so scared that it was rheumatic fever, heart illness, or cancer, or T.B., that such a tragic error could warp his whole attitude toward life and have a permanently bad effect. Could the same be true for co-ops?

In my study of this topic I came upon Dr. John E. Anderson's book, "Happy Childhood," in which he says: "The central problem of adolescence is that of psychological weaning." He went on to say, "Just as the infant is weaned from the mother's breast in order that he may gain control over his own nutrition, so the adolescent must be weaned from his home life in order that he may attain control over himself." Did this idea have some bearing on the development of cooperative associations? Are some boards of directors unable or unwilling to wean their employees and managers so as to put them on their own feet and give them responsibility?

According to Dr. Anderson, "intellectual weaning" comes along with "psychological weaning." Many parents never encourage their children to think for themselves. Some of you have probably seen the old Pennsylvania Dutch play, "Papa is All." Too frequently, managers act like "Papa" and try to do all of the thinking for their staffs, directors and members. They never give them a chance to really participate and develop. Cooperatives, like children, must be "intellectually weaned," so that they are strong, independent organizations which think for themselves.

Pursuing this topic further, I found an article entitled, "Stepping Stones to Maturity," 1/ which deals with the problems of an adolescent boy. This has more application to cooperatives than is apparent at first glance. The author points out that

> "[A boy's] teachers may think of him as dull or lazy rather than confused in the sphere of relationships. He wants to grow up, yet he dares not leave childhood entirely behind him. At one moment an adolescent seems to be 30 years old, poised, mature, sophisticated. Then years later he is a child of 3. The thing that matters is to be sure that the difficulties of adolescence do not so badly frighten a youngster that he slides back to first base and becomes anchored to it."

1/ NEA Journal, January 1952.

This subject opens up a whole range of new ideas. Stagnant organizations do not have growing pains. You can do something for an organization so affected. They are at least a sign of vitality.

Growing pains should not be confused with bellyache caused by overeating but for all practical purposes we can group them together. Overappetite may cause indigestion. The same is true for over-expansion in a cooperative.

In children, growing pains may simply indicate insufficient nourishment--which in a cooperative is lack of capital. We also see cases of overstrained heart in cooperatives--with organizations trying to do too much with limited experience and managerial ability. Youngsters often break legs through sheer carelessness. Many cooperatives do about the same. A boy has to make tremendous adjustments as he grows. So do co-ops.

There are mental and physical growing pains. Mental ones last as long as we grow mentally and that means they do not always come chronologically. But adolescence shouldn't last forever. I am afraid that too many organizations keep their growing pains but stop their growth. In young people we sometimes call mental growing pains "sowing wild oats." In co-ops it is more a question of growing white elephants.

We must remember that purchasing co-ops have been going through a period of rapid expansion and that all organizations--for example, The United Nations--have problems of growth. The United States has had them ever since it was formed, for we are still evolving as a nation.

I have watched many co-ops suffering from growing pains and generally they didn't just cure themselves. In fact, they often got worse, and something had to be done about them.

This reminds me of how Sam Levenson's father treated problems of growth, as reported recently in the Saturday Evening Post. 1/ As Sam reports it:

> "...When I was a kid, we just grew. Today a kid doesn't grow. He develops. He develops by stages. Whatever he does--it's a stage. He bites people? So he's going through the oral stage. He tells lies? It's only developing his imagination. He spits? He's expressing his aggressive stage. My father would wipe out the three stages--with one blow!"

1/ See "Brainiest Comic on the Air," by Maurice Zolotow, in issue of August 23, 1952.

Well, that's one way to handle a problem like this, but I don't think we can use it for co-ops.

All cooperatives differ and have different kinds of growing pains. Some co-ops are fairly mature in one part of their operations, such as feed or petroleum distribution, but still adolescent when it comes to handling appliances, miscellaneous farm equipment and farm machinery. As far as these items are concerned, many co-ops haven't made too much progress in eliminating their growing pains. In fact, some seem to be in a sort of pre-growing pain stage--where they have the pain but not the growth. I am of the opinion that this problem will not be licked until co-ops do some scientific thinking about it. Up to now, many have just stumbled along.

Growth should be in a steady normal manner for co-ops as well as for children. I don't believe we want to prescribe anything for co-ops that produces abnormal growth which may later result in abnormal growing pains. Rather, we must prepare a good seed bed or foundation so that when the proper nourishments of volume, capital, and management are applied, cooperative growth will be healthy and normal. Maybe at the same time we should do some research for a soil conditioner such as Krillium. In other words, many co-ops should not undertake to handle the more specialized and difficult items until they are ready and able to handle them successfully.

Now what does all this have to do with purchasing associations? As you well know, many have grown very rapidly--and many have had many abnormal pains. However, are these disturbances "growing pains" that co-ops will outgrow? Maybe, but perhaps--and this is important--without attention they may stunt real growth and set up frustrations that will long persist, to the permanent injury of the organization.

Proper diagnosis is important. How do we determine whether a growing pain represents some serious symptom? We must know this to treat the problem properly. Moreover, in diagnosis we must know what normal health is--and this means we must know what we are aiming toward.

I can remember when the most common growing pains were to find capital, management, get good practices established--in fact, to <u>get going and keep going</u>. Now, our cooperative growing pains are generally more complex and perplexing. We have a new batch--along with some of the old ones. In fact, there are so many different varieties that it would take me a full week to adequately discuss them here. A cooperative without growing pains would be like a dog without fleas.

For co-ops as a group I would list the most common growing pains as follows:

1. Getting away from one-man management.

2. Getting sufficient capital for proper nourishment.

3. Getting facilities adequate to do a job.

4. Developing organizational discipline so as to achieve real teamwork.

5. Avoiding over-extension of territory, or scattering of efforts over too many lines.

6. Building sound policies for controlling credit and inventory.

7. Learning that democratic action in a cooperative pays dividends and that short cuts won't work in the long run.

8. Getting over preoccupation with growth and getting the emphasis on real service to members, rather than on prices.

9. Building organizational and financial structures that will permit and aid growth.

10. Coming to appreciate that public relations means respect for other people.

11. Finding out how to grow up--through research and study.

12. Learning that speculation may be risky and not worth the cost.

This doesn't list them all--but it may convey my line of thinking.

No doubt the idea in asking me to speak on this subject was to emphasize the fact that cooperative purchasing associations are still having growing pains and that they need attention.

Some of you remember that in July 1941 I made a comprehensive analysis of National Cooperatives, Inc. If there ever was an organization then beset with growing pains, it was this one. National didn't know where it was going or where it wanted to go. It had great ambitions but little idea of how to achieve them. Well, those growing pains were not fatal--but they could have been. Your organization stumbled along and it is finally finding itself--but are you now where you want to be?

What is your <u>main problem</u> or <u>growing pain</u> just now? I presume that the answer most of you would give would be, "How can we build more volume so as to reduce costs and improve services?" It all comes back to the proper method of organization for distribution. To analyze the problem you must go back to your members. How can you get them to buy more or how can you get more members to buy?

The regional organizations, in turn, must go back to their members, the local associations. The locals must go back to their patrons, mostly farmers. Where is the bottleneck? What is the best way to build regional business? There is a great deal of variation in local cooperatives and regionals. If all locals were improved up to the standards of the best we could get somewhere. Is the answer in better controlled distribution by the regionals? If so, what can National Cooperatives do to contribute?

I would like to see each regional tackle this problem of how it can best develop its distribution program on an experimental basis. The only answer to this kind of problem is research and experiment--in other words, distribution research.

When I was a kid there was a man who used to fix up everything that broke down with baling wire. My Dad used to call him a "baling wire mechanic." I am afraid that we still use baling wire too frequently in keeping our co-ops running. It's good for emergencies--but shouldn't become a habit.

A good many cooperative managers think that if they only had a different kind of set-up all their troubles would be over.

American business experience does not show any one best type of retail distribution. In an article a few years ago in the Harvard Business Review, James C. Worthy of Sears, Roebuck & Co., discusses the relationship of morale to organization structure. He points out that in a "flat"type of organization structure, which is comparable to the federated plan of organization, you place a very high premium on the quality of executive power at all strategic points. Sears, Roebuck has come to the conclusion that this is the best type of organization for its operations. The Sears, Roebuck pattern may not work for some other type of business.

Every regional cooperative system must find its own best fit. Such organizations as the Eastern States Farmers' Exchange and the G.L.F. systems give good results in the areas in which they operate, but they may not be so readily adaptable in other areas. I remember the comment of a cooperative manager who had visited several organizations in the East and studied their methods of organization and distribution. He observed that these plans were good "if you could get away with it," but that it would be impossible to operate them under the conditions that confronted him in the Middle West. He said, "Our people are trained in the federated idea, and they want to completely run their local co-ops, while in the East the people have been trained more toward the centralized form of organization."

I think we will all agree that the G.L.F. or any other system cannot be used by any other organization without modification. Even the Southern States Cooperative, Inc., which was largely patterned on the G.L.F. structure, has developed a quite distinctive method of operation.

There are good ideas to be found in every system. I recall a conference many years ago in which a prominent farm leader asked me why we didn't find the one best system for cooperative organization and then put all of our efforts into getting it adopted throughout the United States. I remember that I replied that we didn't feel that there was any one best cooperative system that could be blanketed over the United States, and that it was our view that there were good ideas from many systems and that by studying the various systems we might get ideas that could be applied for the benefit of all organizations.

I sometimes wonder whether we really use what we have to the best advantage. In many cases the system is not too bad--it is the way the system is applied that counts most. I do think it true, however, that we are growing up in cooperative organizations and that there is a convergence of systems. There is thus greater uniformity in procedures among the cooperatives in the United States and Canada today than there was a dozen years ago. We are beginning to see something like a national system and a national pattern evolving.

For many years we have been hearing arguments in favor of the federated versus the centralized form of cooperative organization, or vice versa. The arguments have gone on for a long time and neither type has gone out of business. The G.L.F., Eastern States Farmers' Exchange, Southern States Cooperative and the F.C.X. are outstanding illustrations of the centralized type and have done well. On the other hand, such federated cooperatives as the C.C.A., the Farmers Union Central Exchange, the Midland Cooperative Wholesale, the Indiana and Ohio Farm Bureau associations, Pacific Supply, the Illinois Farm Supply, and many others can be likewise proud of their records.

Just for the fun of it I compared the growth in wholesale business from 1941 to 1951 for these two groups of regional associations, and also their growth in assets. Which do you think expanded most during this past decade? Somewhat to my surprise I found that the federated group led both in growth of volume and assets.

I don't place too much emphasis on this comparison for the result is largely explainable by such factors as age of the organizations represented, type of commodities, handled, and their potentials for growth. It does indicate, however, that the federated form of organization is not lagging behind the centralized. Let me repeat-- <u>I do not think that this record proves that either form of organization is distinctly better than the other</u>. In some areas the centralized form is no doubt best fitted to the environment, while in other areas the federated pattern is the more normal one.

I am more inclined to believe that it is <u>the way in which a system is operated which counts</u>. There is no simple answer as to which system is better. There are good points in both.

It is frequently maintained that the centralized plan of organization has an advantage over the federated in that it permits more control over local management. To my mind, this advantage is apt to be over-emphasized. Regional federations can provide staff assistance to locals and accomplish about the same ends. It seems to me that the main problem is to improve the organization of the locals through departmentalization, better organization, and staffing. As a matter of fact, both types have blended into the other. Both now provide a high degree of centralized management and decision-making. Both put emphasis on doing a good job at local points. Both can learn from the other.

On this problem I like the thinking of Ralph Currier Davis in his recent book, "The Fundamentals of Top Management." He says:

> "A strong central administrative leadership and control does not necessarily indicate centralized operative control of activity within the business organization."

Davis then discusses the advantages and disadvantages of decentralization. He maintains that:

> "The question of centralization or decentralization is simply one of degree--the problem is to find out what is the best degree of centralization for a given undertaking. ... Decentralization usually is necessary for maximum economy and effectiveness when a wide degree of dispersion of activities requires remote control. ... Centralized control tends to become a disadvantage when the organization grows to a large system. The factual data, background, experience, and ability acquired by the central authority for completely accurate decisions tends to increase more rapidly than the size of the organization."

.....

> "Large organizations have found from practical experience that increasing decentralization with organizational growth is sound business policy."

.....

> "The volume of information required for centralized control tends to increase with organizational growth needs and probably in geometric progression."

.....

"With increasing decentralization, subordinate leaders must perform all the functions of management in increasing degree. ... Managerial decentralization may be halted until the present subordinates can be developed to handle their increased responsibilities or new subordinate leadership brought in."

.....

"Success of decentralization may depend consequently on the quality of organizational planning for business growth."

.....

"The growth of an organization tends to be limited by the growth and development of its executives, particularly its top leadership."

.....

"A mediocre executive can give satisfactory performance longer when the rate of change in organizational objectives and organizational growth is slow."

I am inclined to think that too much emphasis is often given to improvement of the central organization and not enough placed at the right spot--on the improvement of the local. The stronger the locals the stronger will be the central. In this connection I would like to refer to a study recently made by Martin A. Abrahamsen, in charge of our Purchasing Section. He analyzed five selected weak and five selected strong county associations in Ohio to see what made the best ones tick. He found that there is a tremendous opportunity for improvement at the local level. After he had completed his study I asked him how much greater the State volume would be if all county units in Ohio were as good as the five best. He replied, "Double."

I realize that National Cooperatives, as an organization, has a special interest in the distribution and merchandising efficiency of its member-regionals. Unless the regionals are doing a good job of building volume they can't give the National the volume support it needs to perform the best possible service for them.

Your records for the past year bear this out. Although the management and staff of National has no doubt worked valiantly this past year, more volume is needed to get your operations on the best possible basis.

The question thus arises--how can more volume be developed by the regionals on the specialized type of merchandise you are designed to handle?

There are two schools of thought on this.

One school holds that the best way to build regional volume is to help strengthen the local units so that they will make a stronger pull on the regionals for all kinds of supplies.

The other school takes the position that the central organization should step in and set up outlets for certain lines of merchandise which need specialized attention for success.

I think that there is much to be said for both approaches. There is a great opportunity to strengthen local cooperatives and through them build volume. In fact--for the short pull--this is where efforts will no doubt prove most effective. It is also true that certain lines of business call for special organization, special equipment, special personnel training, and special treatment.

Frankly, I don't like to see two different systems develop in one operating territory--where a regional-sponsored store is in competition with a local co-op served by the same regional--even though they handle different lines of commodities. It would seem to me, however, that a regional could work with co-ops or groups of local co-ops to set up specialized stores and could help keep them in harmony with the local set-ups.

The English consumer co-ops have used this plan to good advantage. The Cooperative Wholesale Society (the C.W.S.), one of the largest distributive organizations in the world, often works with a group of local societies to set up a specialized type of retail unit which none of them could efficiently operate by themselves. They call these organizations "federals."

A number of regionals are now experimenting along this line in New York, Michigan, Ohio, North Carolina and other States. This is all to the good. Out of these trials some good ideas should come.

In order to get fresh information on British experience I wrote an air mail letter to Margaret Digby, Secretary of the Horace Plunkett Foundation in London. In her reply--received yesterday morning before I left Washington--she calls my attention to two "federal type" organizations run jointly by the C.W.S. and the farmers' cooperati ves. "One is a cooperative bacon factory, which is large and successful, but only of local interest; the other is West Norfolk Farmers, a cooperative manufacturing fertilizers, recently greatly extended with C.W.S. capital and, as far as I know, the only fertilizer plant in this country independent of the two big combines."

She also indicated that there are about a hundred 'federal" societies set up by groups of neighborhood retail consumer societies, the most important being dairy, laundry, bakery and funeral furnishing societies. Each is subject only to the control of the societies which are its members.

She gave me quite a little detail on how these "federals" operate. For example, the United Co-operative Dairies, Manchester, has 25 members, including the C.W.S. Some dairy societies collect, pasteurize and supply bottled milk to retail societies for distribution; others deal direct with the members of the retail societies. She also mentioned National Co-operative Chemists having 113 members. "This venture was stimulated by a legal enactment which makes it difficult, in certain conditions, for retail societies to operate pharmacies directly under their own control, but it has contributed in no small measure to the rapid development of this department by the movement."

In the July 1952 issue of Fortune there is a very interesting article which tells how McKesson & Robbins, the largest wholesaler of drugs and liquor in the world, has largely reorganized its distributive methods since the end of the war. On the basis of careful research on distribution costs, they proceeded to put together a program which has had remarkable success. I would like to quote a few sentences from this article:

> "That a wholesaler should actively sell anything was once a heresy in the trade. Wholesalers for most of their long and obscure history have suffered the reputation of being passive, order-taking middlemen in the economy of distribution. ... But now that his function is widely recognized as essential, even when it is hidden in chain-store integration or manufacturers' direct selling, he comes to life as more than a physical distributor, and this fact is altering somewhat the balances of power among drug manufacturers, wholesalers, and retailers."

In other words, the article points out that McKesson & Robbins, "without abandoning its service functions, has converted to a sales organization."

I would also like to mention a very interesting article in Business Week for August 23, telling about a program for farm implement distribution. The article points out:

> "In the past decade the farm implement business, a one-time hayseed, has grown to a very slick chick." (My emphasis.)

The article makes some interesting points with regard to problems of distribution in this field:

> "First, a lot of today's farm equipment is big stuff. It takes real money to set up shop. One manufacturer estimates that it costs the average dealer twice as much money now as it did in 1939. Allis-Chalmers figures it would take $15,000--without the buildings. ...
>
> "In the old days, too, a farm implement was a fairly simple device. If it broke down, the farmer could fix it up himself. He can't do it today. So the dealer has to provide the service, and he has to stock sizable inventory of spare parts. And since the farmer has a car, he doesn't mind taking a jaunt to the big dealer. ...
>
> "More and more, dealers are putting up fancy showcases to display their merchandise. The streamlined dealership is evidence both of the increased competition and the increased business. As W. G. MacFarlane, president of Minneapolis-Moline put it, 'The war wiped out the weak sisters. The fellow with horse sense, the guy with guts, and with enough good judgment, to really service his customers is the guy who's in business today. And he's a whale of a lot stronger than before.'" (My emphasis.)

I am inclined to believe that many regional and local cooperatives are so wrapped up in their own affairs that they do not know what is going on down the street. In a recent article in the Journal of Marketing for September 1949, on "Electrical Appliance Wholesaling," Charles G. Pyle, Managing Director, National Electrical Wholesalers Association, points out that:

"Dealers, contractors, and others served by the distributor, benefit because of the following services:

1. Undertaking by the distributor of investment risks.

2. Maintaining local stocks for quick delivery of a wide variety of products.

3. Supplying information and data.

4. Providing engineering and special assistance relative to electrical products.

5. Providing a wide variety of maintenance products for quick repair service.

6. Assisting in the training of retail sales personnel.

7. Assisting in appliance servicing.

8. Aiding in specialty selling."

The question for your self-analysis is: Are cooperative regionals doing their jobs as well as the distributors with whom they must compete? They must ask themselves, "Is our system of distribution as alert and comprehensive as that of our competitors? Another question to consider is, "What services do wholesale distributors or manufacturers provide for their local dealers which National does not provide for its local distributors?" Locals need answer to this question, "What services can we best get from our regional wholesales to put us in the best possible competitive position?"

In getting ready for this talk I got the views of several regional managers on the problem of best organization for effective distribution. None gave me an easy answer for it was recognized that methods which work for basic farm supplies like feed, seed, fertilizer and petroleum, will not give the same results for appliances, equipment and machinery which require specialized management facilities, and methods, and trained personnel. Some believed that strengthening the local cooperatives would give the best results--others were inclined to try more unorthodox measures--such as regional-owned and managed stores, designed to handle such items which call for special attention.

My own concern is that careful thought will be given to the development of plans to meet this problem. Moreover, I would like to see any program built upon careful research coupled with a trial run before it is applied on a large scale. I know that you are impatient for results but this problem can't be solved in a day or even a year, anyway. Even if all regionals started effective programs now it would take several years to get the bugs out of the plans and build large volumes. What you must look for is a solution which will give results for the long run.

In the meantime, you can probably make real progress by using more effectually the tools you already have.

In concluding, I would like to share something with you. In her article, "We Come of Age," in the July Cooperative Poultryman, Mrs. Ethlyn Paige Gorsline explains to David, her seven-year-old grandson, some of the facts of life.

> "'What's a cooperative?' he asked.
>
> "Now that's a good question that folks a lot older than seven might well ask. 'Remember when the battery in your daddy's car went dead when he was taking all of you boys out into the desert to look for rocks?' I said. 'And he tried to push it up that little hill so he could coast down the other side and start the motor? And he pushed and pushed and he couldn't move it. Then all of you little tykes who didn't weigh 60 pounds apiece jumped out and got behind it and around it and pushed all together as hard as you could. And it began to move a little, and it kept on and on and finally it got to the top of the hump and you all jumped in and it rolled downhill till the motor coughed and hiccoughed and started to purr? Well, that's what a cooperative is. A whole lot of little fellows that couldn't move a wheelbarrow alone but when they gang up and get together they can push over whole mountains if a mountain needed pushing over.'
>
> "'Uh huh,' said David. 'But all the boys didn't get out and push. Stinky sat on the running board and dragged his feet.'"

OBSERVATIONS ON RESEARCH FOR COOPERATIVES 1/

By Joseph G. Knapp, Associate Chief
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When I saw Mr. Bowen yesterday he opened the conversation by asking me, "What do you know about research?" An excellent question! You might put it to yourselves, as humility is good for the soul.

Well, there are a few things, Mr. Bowen, that I think I know about research--based upon almost 30 years of experience working with cooperatives in a research and educational capacity.

1. That research for cooperatives is indispensable to their success.

2. That research for cooperatives is a sadly neglected field.

3. That much so-called research for cooperatives is wasteful of time and effort.

4. That cooperatives must find out how to get the research done that needs to be done.

This gives you my general point of view.

Incidentally, I am impressed by quite a change in atmosphere since 1934 when I first attended a Congress of the Cooperative League which was held here in Chicago at the Morrison Hotel. Then the spirit was that of a religious crusade. Now it is less emotional but more determined and rational.

The new emphasis on <u>management</u> is encouraging--also, the attention being given public rleations, finance, etc.--but all of these matters are dependent upon sound research.

There are three big problems I would like to offer for discussion:

1. What are cooperative research needs?

2. How can provision be made for these research needs?

3. How can cooperatives get the results of research into use?

1/ Notes for research discussion at Cooperative League Congress, November 7, 1952, Edgewater Beach Hotel, Chicago, Illinois.

There are funds of experience not fully utilized. We need more jobs like Harvey Hull's book, "Built of Men," which is a case study of a successful cooperative enterprise. We need many books like this by men who have been pioneers in development. We should not forget that historical research helps us to avoid errors made in the past, and to find out methods which have given good results under particular circumstances.

We need more studies of success and failure. Sure, it's hard to study failures--we can best study successes. The Palo Alto Store is a good example. Why has it done so well? I would like to see a careful analysis of its year-to-year development.

We also need more and better statistics on cooperatives of all kinds to know where they are going. We must have statistics for good research programs. Government can help on this--but only with full support and cooperation from the cooperatives.

Proper diagnosis of problems is of first importance. We should spend as much time planning research as in doing it. In fact, planning is a large part of doing.

Anticipatory research. I have coined the phrase, "anticipatory research," to convey the idea of research designed to meet needs before they are apparent to all. Many costly failures could have been avoided by good research at the right time. We can't afford not to do research.

Research is a simple idea. It means finding the facts as a basis for action.

TRENDS AND DEVELOPMENTS IN COOPERATIVE FINANCING _/

By Joseph G. Knapp
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What are the trends and developments in cooperative finance? That was the important question which Glenn Fox gave me to consider. However, I think Glenn wanted me to do more than describe trends and developments in cooperative finance. What I think he really wanted are some ideas that may be of help to the CCA and its member associations on their problems of finance. Any way you look at it, the subject is--as the small boy said of the elephant--"enormous."

Let's look at the general question first--what are the trends in cooperative finance? In what direction are we moving? Are we building stronger, better-financed cooperatives? Are we building them fast enough?

Have we really learned how to finance cooperatives--local and central--so that they will meet the requirements of members and be able to maintain their financial independence?

To be quite frank, I think the answer to these questions is largely - no. We are just beginning to learn the secrets of cooperative finance--and by this I mean financing to achieve the purposes for which cooperatives exist.

In many cooperatives we do not find members feeling a sense of financial responsibility. Why not? It's their organization--or, is it? On the other hand, we have many cooperatives in which the members have a strong sense of financial responsibility. Why is this?

It would be interesting and worth while to make a study of a group of your local cooperatives to determine the degree of financial responsibility felt by their members, and to find out why this feeling is so much stronger in some local cooperatives than others. I believe that a study of this kind would show that members feel little sense of financial responsibility unless they have a real stake in the enterprise. There is much to the axiom that people will try to protect what they own.

_/ Notes used in talk at Annual Meeting of Consumers Cooperative Association, Kansas City, Missouri, December 2, 1952.

I can give you an illustration of this from a cooperative of which I am a member--the Group Health Association of Washington, D. C. A couple of years ago, right after the Korean War broke out, Group Health Association found itself in a bad spot. To carry on its services it was necessary to purchase a large building, and this could be done only by getting a significant capital contribution from each member. A plan was worked out which would raise several hundred thousand dollars--largely by adding an amount to each monthly bill as a capital assessment. When the plan was announced it was believed that large numbers of members would withdraw. But they didn't. Instead, a queer thing happened. Members began to take a greater interest in their cooperative. The plan was equitable and reasonable--and for the first time many members began to see that they belonged to an organization of some consequence.

In a very instructive book recently issued by the English Cooperative Wholesale Society, there is this highly significant observation:

> It is in the arrangements for the finance of the business that the secret of the cooperative approach is to be found."

Now this is an arresting idea--that the key to cooperative success lies in the cooperative way of financing. To put this another way--if a cooperative is financed on a real cooperative basis, we can be assured that the organization will function all the way as a true cooperative organization.

The Cooperative Wholesale Society has proved this point. It has demonstrated that finance can be made the servant rather than the master of its 900 member societies, and, in turn, of their 6,000,000 members. These 6,000,000 members have built one of the largest and strongest integrated business organizations in the world on capital freely furnished by those who use its services. The members have retained <u>control</u> over the capital employed to finance their business on a truly democratic basis--and they have used this control to build a business responsive to their needs.

Several years ago a group of economists were called upon to make a realistic study of the cooperatives in Great Britain. One thing that struck me in their analysis was that finance was no problem. As they expressed it, "The capital problems facing the cooperative movement are not concerned with the raising of funds for expanding its trade, but with the use of the funds already raised. They are problems not of finance but of investment. ..."

I am afraid that most of our cooperatives in the United States have not yet arrived at this happy stage. However, some are a lot closer to it than others. Take CCA, for example. CCA is a lot closer to financial independence than it was a dozen years ago.

I mention this because there is a tendency in some circles to underestimate the advantage which cooperatives have in the field of finance--if they will use it. By pooling the available financial resources of members behind a cooperative, a great fund of capital--adequate to do the jobs that need to be done--can be accumulated. Moreover, a cooperative can generate or form capital through the temporary impounding of savings made in the course of normal operations.

The G.L.F. gives us another interesting example of how a cooperative can increase the financial support of its membership. About ten years ago the G.L.F. became concerned over the fact that its capital stock was held by a relatively small number of shareholders. A campaign was begun to increase membership ownership and in January 1951 there were 117,740 member owners with an average investment of about $212.

This program has greatly strengthened the G.L.F. from top to bottom, and it has given great satisfaction to both management and membership.

Do we give people an understanding of the need for financial support--and continuing financial support--to make their cooperatives succeed? Too often, I believe cooperative leaders get on the defensive in their financial thinking when they should be building for the future. Frequently they have oversold the "painless"side of cooperation--"the get-something-for-nothing philosophy." They give the impression that cooperation is something like "perpetual motion" - started with savings and kept going automatically by savings. I am afraid that the hard school of experience shows the fallacy of this philosophy. In the long run, you get out of anything only about what you put in--in money, in energy, and in brains.

I believe--and the facts bear me out--that people will support a cooperative with their pocketbooks and patronage if they believe in it--and have faith in its management.

This brings me to another idea--that good administration is indispensable to good financing.

A farmer won't long support a sick or dying horse no matter how much he likes him. If a cooperative is going some place people will want to get on board.

Finance, to my mind, is only one phase of the whole cooperative operation. You can't segregate it from other phases of cooperative operation--such as management, membership administration, accounting, etc., for these other operations influence the way a cooperative is financed. In other words, you can't leave the financing problem entirely to specialists. They can help--but their help must be correlated with the program of the cooperative in all of its aspects. In other words, financial thinking must be in line with cooperative thinking. We need financial specialists to help us but they will be of little help unless they gear their thinking to the needs of cooperatives--as cooperatives. We don't want the assistance of financial specialists to teach us how to make cooperatives like ordinary corporations. What we want is assistance in using the financial lessons from business enterprise of all types as they can be adapted within the framework of the cooperative form of enterprise.

Do we give people enough information on the financial problems of their cooperatives? I fear that we still make financing of a cooperative seem too complex. We make it too much a prerogative of management.

How can we get members to really support their organizations unless they are given a sense of being full partners--and that implies no secrets between management and members on fundamental problems. I don't say that this is the easy way--but I believe it is the best way for the long run. When things are going fine, members don't ask for much information--and many organizations don't give them much. When the going gets tough, members want to know what's going on--and then they put management on the defensive. A better plan is to give out the essential facts--rain or shine. This will build understanding and give support when it is most needed.

Business experience shows that one of the most common causes of failure is lack of capital. One business economist of high standing maintains that the future belongs to big business because only big business can provide the funds essential for research and development.

I don't think this line of thinking needs to worry cooperatives for they can organize and federate so as to achieve all the advantages of large-scale operation.

However, large powerful cooperatives cannot be built on a "something-for-nothing" philosophy of financing--where members aren't willing to give their cooperatives real financial backing. It's a strange thing--but many farmers will think nothing of spending a couple of thousand dollars for a tractor, while they will kick like the devil if they are asked to contribute $100 to increase the capital of their cooperative.

You can't expect a cooperative to do a good job without adequate capital--any more than you could expect to win a fortune in a poker game with a dollar capital when the blue chips cost a quarter apiece. You would have no room to maneuver or bluff and without phenomenal luck you would be sunk--or your dollar would be.

Now, this may not be a good comparison, for some of you may not play poker. I don't advocate that you do--but if you do--you don't expect to make a fortune without any capital. In the same way, the business game is so fast that you can't expect to stay in it without an adequate supply of capital.

How much capital should a member have invested in his cooperative? If a member has a capital investment of $30,000 in his land, buildings and equipment, should he feel that 1 percent of this, or $300, is enough to have invested in his cooperative associations?

A year or so ago I estimated that the average amount invested by participating farmers in cooperative purchasing and marketing associations was $333. This is now up to about $380. This covers his equities in more than one cooperative. At the same time the average farmer was worth about $25,000. In other words, those farmers participating in cooperatives had about 1.5 percent of their owned resources invested in their cooperatives.

I don't say that this is too much or too little--for any particular cooperative--but for all cooperatives combined it isn't very impressive. It seems to me that our standards for cooperative support may be set too low. If the average farmer had $1,000 invested in his various cooperatives, we would have a more reasonable relationship between equity in cooperatives and equity in land, buildings and equipment--a relationship of about 1 to 25 instead of 1 to 70.

You may think this seems high. One of the managers of a large regional thinks that the ratio should be 1 to 10.

At any rate, if the ratio were higher farmers would have a greater feeling of interest in and responsibility for their cooperatives--and their cooperatives, in turn, could do more of the things that the farmer wants from them.

In considering the problem of cooperative financing let's not forget that cooperatives have been unusually lucky in operating since about 1933 on an upward trend of prices--except for a slight interruption in 1948-49. If the price level had gone the other way, we would have seen a lot more cooperatives having financial difficulties. Some of you will recall that the decline in prices in 1948 and 1949 gave us plenty to think about. Remember how everybody began talking of the shift from a seller's to a buyer's market. There were a good many cooperatives in the summer of 1950 who were given a new lease on life by the Korean War--and this isn't a pleasant thought to ponder over.

It seems to me that cooperatives should get themselves in the best possible shape when times are good--but this is difficult, for when times are good the weaknesses don't show up.

However, it is a promising trend that cooperatives are beginning to study their financial problems. It doesn't take a financial specialist to tell what's wrong in many cases--for it's apparent that there is a lack of membership capital. The problem is to find some way of getting the members to realize that if they don't put more in--they won't get more out. When we get this idea well established--we will have our financial problem largely licked.

When I studied cooperatives in Ireland a number of years ago I was impressed with the way farmers were expected to contribute capital to their cooperative in proportion to their holdings of cows or acres of land. I wonder how this idea would work in terms of tractors, etc. At least, it recognizes that there should be a relationship between the size of the farming operations and the capital contribution to the cooperative from the farm.

The revolving fund plan of financing has much to be said for it, for it builds cooperative capital in proportion to use made of the cooperative. However, the plan is not fool proof. It's like any other tool. It can be used wisely or unwisely.

Unless members like the way it operates it's probably not being operated wisely. Any plan that doesn't appear reasonable to the members should be carefully examined to see how it can be improved--or whether it should be discarded.

In operating our cooperatives we shouldn't be slaves to any plan. We should always be willing to re-examine the plan in the light of changing developments --and make such alterations as may appear necessary.

In general, cooperative financing problems can be rated according to their urgency.

1. In some cooperatives the most pressing problem is to build up supporting membership capital.

2. In others, operating efficiency is low and it must be increased to create the confidence necessary to attract membership financial support.

3. In some the real problem is to revamp the present financial program which has grown up unplanned--and adopt a long-time plan more in keeping with present needs.

Let me close by giving you a check list of common cooperative financial weaknesses:

1. Is there a lack of membership capital?

2. Is the organization overexpanded?

3. Is it "topheavy with debt"?

4. Is it trying to go too fast in too many directions?

5. Does it resort to hand-to-mouth or shoe-string financing?

6. Are sluggish operating practices tying up working capital--creeping credit, lazy inventory, etc.?

7. Does management play by ear--operate on hunches? Are important financial decisions made in advance of need ?

8. Are objectives of organization clear or does empire building take place of systematic planning?

9. Are management and personnel finance-minded?

10. Do you really teach members the financial facts of cooperative life?

<u>What kind of a score do you give your own association?</u>

THE BUSINESS PHILOSOPHY OF FARMER COOPERATIVES 1/

By Joseph G. Knapp, Acting Chief
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A number of years ago I was traveling on the observation car of a train en route from Denver to Chicago. I overheard two businessmen talking together. One was telling the other of his riding horses. He said, "A number of us have a sweet deal. We all chip in and keep a stable for our horses and a groom to look after them. We pay just what it costs, and it's not too exorbitant. Otherwise none of us could afford to keep a horse."

Now the other agreed that this was a "swell business arrangement."

Later on I got to talking with the man who had his horse in the cooperative stable--for that's what it was--and he asked me what my job was. I said, "Working with farmers' cooperatives." He then said, "The trouble with farmers is you can't get them to cooperate." Well, more and more are doing it. Farmers--just like the Chicago horse owner--have learned that cooperation is good business.

It is often assumed that a cooperative can't be as efficient as other forms of business. It's often implied that they are run by quaint groups of farmers who don't quite know the score. This idea is gradually dying out as cooperatives take on ever-increasing public significance, and as business people in general have had more contact with cooperative members and employees.

I'll admit that sometimes cooperative enthusiasts have been long on sentiment and short on business competence. But, on the other hand, some of the most efficient businesses serving farmers today are cooperatives. We must remember that business today is done largely by corporations. These corporations are managed by hired managers. Cooperative corporations can get and train good managers just as well as anybody. As Dr. Edwin G. Nourse pointed out many years ago, "Agricultural cooperation offers to the inherently decentralized industry of agriculture a workable and expansible scheme of organization."

In calling this talk "The Business Philosophy of Farmer Cooperatives" I wish to emphasize the word <u>business.</u> Cooperatives are capitalistic institutions and we might as well start out with this fact. Why do farmers organize cooperatives? To save themselves money and get the type of services they want. Who owns the cooperatives? The answer is -- the farmers who invest in them and use their services. Who controls the cooperatives? The farmers who invest in them and use their services, of course.

1/ Notes for talk to be given at "Special Meeting for Representatives of Suppliers of Cooperatives," August 12, 1953, American Institute of Cooperation, Columbia, Missouri.

The business philosophy of cooperatives is thus based on the concept of enlightened self-interest, which can be thus expressed from the standpoint of the cooperating members -- "By working together we can all benefit as individuals."

A cooperative is simply a form of business enterprise set up by a group of individuals to perform a service for themselves. They go into it for their economic benefit. The main distinction between a cooperative and a non-cooperative business is that the non-cooperative business is set up by an individual or a group to perform a service for someone else, of course at a profit. Now you may say -- the cooperative isn't like other businesses for it doesn't try to make a profit. Here the difference is illusory. The cooperative endeavors to operate as efficiently as any other business -- for all savings revert to the members who are the customers. In a farmers' cooperative these savings serve to increase the farmer-patrons' returns from their farm operations.

Business is generally defined as the production, purchase and sale of goods and services in order to make a profit. Businessmen are people who engage in business. However, the term has come to be applied to an organization insofar as it carries on transactions of an economic nature. We speak of church business, lodge business, college business. Take also the adjective "businesslike" -- what is meant when one operates in a "businesslike way"? It means he isn't fooling -- that he is doing something for a purpose -- that he is measuring effort against results.

When we refer to the business philosophy of cooperation we are referring to the way a cooperative does business, or to the fact that a cooperative operates in a businesslike way.

It should be kept in mind that in the day-to-day operations of buying, selling, and handling farm supplies, or farm products, there is no great difference between a cooperative and a non-cooperative business. A farm supply cooperative, for example, buys supplies and receives them into its warehouse in much the same way as the non-cooperative concern. Likewise, it displays the goods, takes orders from its members (customers), and fills the orders in much the same manner. The farm supply cooperative buys at competitive prices and sells at competitive prices. It is interested in efficient management and low-cost operations just as much as its non-cooperative counterpart.

The fundamental difference in the business philosophy of a cooperative association and the business philosophy of a non-cooperative enterprise thus lies in that general area which may be defined as "the relationship of the cooperative to its members." It is not until attention is focused upon such things as ownership, control, and distribution of proceeds that the real differences in business philosophy appear.

Now a cooperative is an economic organization. It buys and sells. For what purpose? To serve the needs of its members. The confusion to many people in general business is that they can't realize that a cooperative is simply a different kind of business, one that measures results not in profits to shareowners, but in savings and benefits to those who use its services.

It is frequently said that cooperatives operate on a cost-of-service, or no-profit basis. What is meant is that the cooperative as such makes no profit. This doesn't mean it isn't profitable for a member to belong to a cooperative. If a man makes savings from his cooperative this means he pays less for supplies purchased, or gets something in addition to his sales price for products sold. A dollar saved is still a dollar earned.

Cooperatives are set up to serve an economic need. If there isn't an economic need to be filled there isn't much future for a cooperative. Is there any difference here between a cooperative and any other form of business? Can any firm long survive if it doesn't meet an economic need? It is the competition of businessmen to serve economic needs that creates the probability that consumers will be well served. If a cooperative can't serve economic needs as well as other forms of business the cooperative cannot exist. A cooperative association must be as businesslike as a competitive business firm. If it performs the same type of economic service it necessarily follows that it is also a business enterprise.

When you are doing business with a cooperative you are doing business with a business--a little different in form perhaps--but one that is interested in getting value for its money. Cooperatives are good businesses and so make good customers for other businesses. They are part of our whole business system.

The manager of a cooperative association thinks very much in the same way as that of any other business. Business administration, according to the Encyclopedia of Social Sciences, may be defined "as the science and art of conducting an enterprise with a maximum of efficiency and a minimum of cost." This definition has as much point for a cooperative as for any other form of enterprise. The cooperative manager has to produce results--produce goods, distribute them, collect for them. There is one big difference, however. The cooperative manager must satisfy the customers as owner-patrons of the business. Generally also, their interests as patrons are more important to them than their interests as owners.

A recent article in the Harvard Business Review points out that the chief aim of business today is to survive. A corporation must be businesslike in its operations and practice the rules of business which lead to survival. Costs must be controlled. Economic services must be rendered. Capital must be accumulated and protected. The cooperative has all of these problems, for a cooperative cannot survive unless it meets competition.

Do cooperatives harm other businesses? No more than other businesses harm cooperatives. In the last resort, what is the end or basic purpose of business? I am sure that you will agree that it is the maximization of public welfare. The profit motive may make it go, but the moral strength of the system lies in the benefits derived by all members of society. If a cooperative, operating on a free and fair basis--can grow because it performs desired economic services--shouldn't it be allowed to grow?

It cannot be denied that farmers and their cooperatives are part of our free enterprise system. Donald K. David, Dean of the Harvard Graduate School of Business Administration, emphasized this point at the 1948 sessions of the American Institute of Cooperation by saying, "We regard the farmer cooperative as a definite part of the business community."

In a pamphlet issued by the Committee on Economic Development in October 1944, entitled "The Economics of a Free Society--a Declaration of American Business Policy," the free enterprise system is referred to as

> "...a system of production, investment, and consumption under which private individuals and business firms, largely by their own initiative and responsibility, combine the country's labor skills, managerial skills, and capital to produce the bulk of the goods and services men want. Its most characteristic features as compared with other systems are: maximum dependence upon competition and the free play of prices to determine who shall produce what; maximum dependence on profit as an incentive rather than on compulsion or prestige, and maximum emphasis on free personal choice among the economic opportunities--be they goods or jobs--that are available to men.
>
> "Under a free enterprise system, men risk their resources in private ventures in the hope of gain ... A true system of free enterprise thus encourages venture and risk taking, whether by an individual worker or by a group of individuals in the form of a cooperative or a big corporation."

I once heard a prominent Swedish economist say that Swedish cooperatives made business so healthy in Sweden that Swedish businessmen were their strongest advocates. I can't vouch for the truth of this. Yet, one of the strongest endorsements ever given agricultural cooperation in this country came in the report of the Businessmen's Commission on Agriculture, published jointly in 1927 by the National Industrial Conference Board, Inc., and Chamber of Commerce of the United States of America.

The Businessmen's Commission said:

> "Important as are the opportunities for individual self-help, the success of farmers in meeting their own difficulties without outside aid depends mainly upon their organized cooperative efforts in reducing production costs and market losses."

In the chapter devoted entirely to Cooperation, the Commission said,

> "Cooperation should start with the purchase of goods needed for agricultural production. Fertilizer, seed, feed, machinery, feeder cattle, feeder lambs, and many other commodities can often be bought cooperatively better than through the private trade. The cooperative method concentrates the buying power of many farmers into a single channel and makes possible considerable savings through wholesale buying and shipment in carlots. It also tends to eliminate unnecessary service such as advertising, storage and credit extension."

If you really want to see the business philosophy of cooperatives at work look at the program of this Institute of Cooperation. What are the cooperative leaders who are here convened thinking about? Let me cite a few items: Research, management, personnel problems, membership relations (another name for customer satisfaction), inventory and credit control, business organization and administration, equipment needs, accounting, business control, commodity economics, merchandising techniques, foreign trade possibilities, government relationships, plant expansion, integration of operations, competition. I challenge you to find more topics of a more downright business nature in any meeting of the National Chamber of Commerce, the American Marketing Association, the National Association of Credit Men, the Boston Conference on Distribution or in any other recognized conference of national business leaders. These people are here to learn how to do cooperative business in a more efficient way.

I sincerely believe that cooperatives are a healthy part of our American business system. Many studies show that cooperatives help make good communities, and that a strong cooperative is a sign that the people in a community are an independent group. It is also a sign that other businessmen in the community are up on their toes. They have to be.

It is a well known fact that Macey's in New York is glad to have other big department stores near by for this increases the number of potential shoppers. In the same way, many business people have found out that a strong cooperative in a community increases business volume and thus benefits other enterprises.

It is significant that many prominent businessmen have a great respect for agricultural cooperatives. They recognize that cooperation is a form of business enterprise peculiarly adapted to the needs of the farming industry.

I recently heard Homer Brinkley, Executive Vice President of the National Council of Farmer Cooperatives, tell of a business acquaintance who was interested in buying a farm. He made one stipulation--he wanted the farm located where there was a good cooperative to help him market his products and a good purchasing association to help him buy his farm supplies.

I would like to sum up by listing a few of the ways in which farmer cooperatives help make our American free enterprise system work:

1. Cooperatives teach farmers the facts of economic life by making them partners in their off-farm businesses and thus increase general economic literacy. Farmers as a class today are much better businessmen than they were, say 25 years ago, and a major cause for the change has been their participation in cooperative businesses.

2. Cooperatives help develop markets and this benefits other businesses. Farmers' marketing cooperatives must find outlets for their members' products if they are to serve their needs. By finding markets many cooperatives have helped make prosperous rural communities. The prosperity of Rockingham County, Virginia, is a good illustration of this point.

3. Cooperatives help maintain quality standards for products and supplies. That is what they are in business for--to get supplies that will best serve their needs, and produce products that will appeal to consumers. Good quality standards benefit all elements in a business community.

4. Cooperatives foster high standards of business morality. Operations must be maintained on an above-board basis. Respect for high standards of business conduct by the cooperatives encourages high standards in the business community.

5. Finally, I would like to stress the fact that cooperatives help preserve respect for private property. Members belong to cooperatives because they wish to protect their property and increase it. If private property is the basis for our free enterprise system the farmers who own their cooperatives can look any other free enterpriser in the eye.

Yes, businessmen have a real stake in the future of farm cooperatives, for they are a healthy part of our American business system.

INTERIM REPORT ON STUDY OF COMPENSATING PETROLEUM TANK WAGON DRIVERS 1/

By Joseph G. Knapp, Acting Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

At your last petroleum conference, held in August at Columbia, Missouri, in connection with the American Institute of Cooperation, I outlined our plans for conducting the study of compensation methods and incentives for petroleum deliverymen, earlier requested by your group. We have made some progress since then, but not as much as we had hoped for. Completion of a study of the operations of Mississippi Federated Cooperatives and its affiliated locals, by Warren Lather who is handling this petroleum project, involved considerable time. Also, we could not get approval of the questionnaires for the petroleum study from the Bureau of the Budget as soon as we had anticipated.

Following the August meeting in Columbia, letters were sent to all regional cooperatives handling liquid petroleum products, which explained the study and asked whether they desired to participate. We had a very fine response. All of the large regionals indicated a desire to cooperate. Two smaller ones agreed to mail out questionnaires to their locals but indicated that they did not have the man-power at present to do any field work on the study.

As you know, the first phase of the study consists of getting some basic information by mail questionnaire from local cooperatives as to their methods of paying deliverymen, employee benefits, volume, and type of records.

During the latter part of November, questionnaires were sent to 22 regionals which forwarded them to their 2,200 affiliated local associations performing delivery service.

To date, we have received only 657 completed questionnaires, but several regionals have not forwarded to us those which they have received. The returns have generally ranged from 25 to 90 percent of the total. We hope that a second mailing will result in replies from at least 50 percent of each group of local cooperatives. Therefore, we cannot give you very much in the nature of a summary of the questionnaires at this time.

The schedules generally have been well filled in, however, and a number of managers have included comments about their compensation plans. Of the 657 questionnaires received, 50 percent indicated that their deliverymen were on a straight commission; 31 percent were on a straight salary; and 14 percent were using a combination plan of salary plus a bonus, commission or incentive pay. Five percent of the associations had part of their men on one method and part on another method. Of the cooperatives on a straight commission, most of their deliverymen owned their trucks. The cooperatives, and, in some cases, the manager, owned the trucks in the remaining group.

1/ Presented at Petroleum Conference, National Council of Farmer Cooperatives, Chicago, Illinois, January 11, 1954.

Comments by managers varied greatly but quite often those on a commission basis said they preferred this plan because of the incentive it provided and because the men were paid in proportion to their output. Of those on a salary, many said they would like to try adding some type of incentive plan to it. Others said the salary plan was all right if there was good supervision and general management of the cooperative.

Here are a few interesting remarks:

"I do not feel the commission basis is a cure-all. You lose a certain amount of control over employees."

.....

"The union will not allow us to use a commission or incentive plan for our deliverymen."

.....

"The commission plan is best but it does not solve the accounts receivable problem."

.....

"The best plan for the good of the association and all is to have the manager on a commission and have him own the trucks, pay the employees, and be responsible for the accounts."

.....

"We plan to set up a basic salary plus a commission on sales over a set amount, with responsibility for any accounts receivable."

.....

"The best method we have found is straight salary and do a good job of choosing your men."

.....

"I prefer a salary plus a commission but I haven't found a commission plan that is fair to all concerned, including service station help."

.....

"I have tried a salary plus a percentage of all salaries received but it did not seem to work out. A straight salary plus a Christmas bonus based on net savings of the company and a net salary for the manager with some consideration for years of service helped some. I would like some system whereby the deliverymen would be guaranteed a minimum salary but on a commission, with the manager owning the trucks."

.....

"Our men are on a commission but we also give a bonus of 1/2 cent a gallon on all new business for a period of 6 months after it is obtained. This works out very well as our business has increased quite a bit in the past year."

.....

"Men on salary help at other jobs or departments better than if on a commission but they do not solicit new patrons as they should."

.....

Many local managers indicated they would be interested in the results of this study. Representatives of regional cooperatives have also expressed an interest in this problem. One said its locals have tried several plans and that now various officials of the regional should develop a plan that all could recommend to its local associations. Another said that the "regional wholesale is asked from time to time by local boards of directors to advise them on methods of hiring their employees. There is a great variance in the methods now followed and if a uniform policy could be developed it would eliminate some of the ill feeling that prevails between certain cooperatives and their employees."

The information we have obtained so far indicates a marked increase in volumes delivered per man in recent years and that there are some very interesting methods and experiences that should be studied in some detail. For example, the petroleum associations affiliated with Southern States Cooperatives, Inc., changed from a straight salary to a salary-plus an inventive pay system a few years ago. This was done recently enough that performance before and after the change can be analyzed.

Associations in Michigan have largely changed from a salary to a commission basis within the last 4 years. County cooperatives affiliated with the Pennsylvania Farm Bureau Cooperative Association, Inc., have always employed deliverymen on a commission basis but over the years the truck ownership has been changed from the men to the cooperatives.

Mr. Mather believes that a brief write-up of some of these cases would be of interest to all regional wholesales. It would give a complete picture of what is being or has been done in certain areas and make available some of the findings as we go along. Approval of each write-up would, of course, be obtained from the regional concerned.

Now I want to discuss briefly the second phase of this study, namely, obtaining from a selected group of local cooperatives detailed information on the influence of methods of payment on volume, delivery costs, credit, and employee turnover.

The objective is to obtain information on the strong and weak points of each method and if possible determine which compensation system gives the best over-all performance. This is complicated by the influence of general management and success of the cooperative, the ability and initiative of the deliverymen, and the extent to which deliverymen carry credit as well as sell and deliver petroleum products. This detailed information from the selected associations is to be obtained by field visits largely by representatives of regionals. Mr. Mather will also contact some of the locals -- especially those which have tried out several systems or which now use rather unique methods.

The size of the group to be intensively studied will be limited to from 5 to 10 percent of the locals of each regional because of the time and expense involved. A smaller group probably will be used where only one method of payment is in use. Selection of a small number of locals in each State or area presents a difficult problem. Mr. Mather has worked on this problem with the regionals in Ohio, Pennsylvania, Indiana and Illinois. He has obtained the detailed data on two of the 23 county farm bureau associations in Pennsylvania.

It appears to us that we should study the most efficient, successful associations rather than the fair to weak ones if we are to get information on practices that will be of most help to all cooperatives. Also, we probably should study a few of the average groups to determine whether any difference in findings exist under this type of performance.

There is no one measure of degree of success which is entirely satisfactory but we propose to use net savings per dollar of petroleum sales since this is the only one for which information is readily available throughout the country. The proportion of the petroleum potential obtained and total operating expenses per dollar of sales can also be used, if available, whenever net savings per dollar of two associations are almost identical.

Geographical distribution will also be taken into account where there are differences in types and amounts of fuel used by farmers. Other factors which will be considered in making final selection of the locals are:

1. Availability of records on individual deliverymen.

2. Three or more years experience in petroleum delivery operations.

3. Changes in methods of pay within the 1946-51 period.

4. Closeness to industrial areas and large cities.

5. Volumes of fuel oil with urban patrons.

Mr. Mather will visit each regional as soon as possible to select with them the group for intensive study. Tentatively, he is planning to summarize the mail questionnaires by States and regional affiliation, and prepare a preliminary report covering the data contained in them. Then information obtained in the detailed study of selected associations can be analyzed and made the subject of a second report. Also, it appears desirable to divide this study into two parts -- one dealing with the cooperatives east of the Mississippi, which are largely county-wide and affiliated with State wholesales, and the other dealing with the associations west of the Mississippi which are largely on a community basis and affiliated with regionals serving several States. This will enable us to provide results sooner, as well as information on an area basis.

We are looking forward to this being a very interesting and worthwhile project. It is already proving to be a bigger and more important job than we first anticipated--which is usually the experience in doing a comprehensive research job.

CO-OPS -- BETTER COMMUNITY CITIZENS [1]

By Joseph G. Knapp, Acting Administrator
Farmer Cooperative Service, U. S. Department of Agriculture

I am indeed happy to be back home -- for I was born at Loveland in 1900, and I keep my Colorado citizenship. Before speaking on the subject assigned me I can't resist reminiscing a bit about my early days in Loveland, Fort Collins, and Greeley, where my Dad was one of the first County Agents in the State.

As a kid of 10 in Loveland I worked on old George Fay's sugar beet gang. George Fay's gang consisted of fifteen or twenty blockers and as many thinners -- the toughest kids in town. The first year I was water boy and booster. My job was to go to the farm houses and carry two large pails of water out to the gang. If there was any time left I was to help the sluggard thinners who couldn't keep up. It was a great gang and I was proud to be on it. The next year I became George Fay's thinner. After the beet thinning season, during June and early July, I worked on such odd jobs as raspberry, cherry, and bean picking. It was a good place to learn farming from the ground up.

In 1914 we moved to Fort Collins where, during the summers of 1916 and 1917, I worked on North Park cattle ranches. This was quite an experience, for the ranchers then were really operating. We got our horses off the government range -- and they had to be broken each year. I was scatter raker and I had three runaways the first year on the John Payne ranch on the Canadian. The hay crews consisted of about 14 men; 3 mowers, 3 sweepers, 4 rakers, 2 on the plunger and about 2 on the stack. We all slept in the bunk house and had a cook to feed us -- and we ate well, with plenty of fresh beef, and good syrup for the bread.

When I was back in the Park in 1951, after an absence of 33 years, it was like a ghost of the old days, with jeeps doing most of the work of horses. I visited one ranch where the hay crew consisted of only 5 men. Many of the bunk houses in the Park have fallen down or been burned for firewood. It made me realize how quickly times can change.

I won't go more into my early days except for one thing. During the summers around 1920 when I lived in Greeley while I was a college student at the University of Nebraska my brother and I contracted for the three beet hoeings on farms around Greeley. We recruited my younger brother and a few more blockers and thinners and made a little money for ourselves. I always liked work in the beets in Northern Colorado. Although the work was hard it made us feel like a million dollars, and we could always look at Long's Peak for inspiration. One of my proudest claims is that I have hoed and thinned more beets than any other college graduate in America. When challenged, I change this to "Ph.D."

1/ Talk given at banquet of Colorado Cooperative Council, Denver, Colorado, February 4, 1954.

I have given you this little personal account to let you know how much at home I feel in Colorado. Now to get to the main subject.

You have had as your general theme today, "Getting Acquainted with Colorado Co-ops." It has been a pleasure to be here for much of the discussion and to see how cooperatives are faring in the State. I am acquainted with many of your co-ops through past visits but this meeting has given me an opportunity to greatly expand my knowledge of what Colorado co-ops are doing.

When everything is considered, cooperation in the State has had a very interesting history. Think of the old Union colony at Greeley and its adoption of the cooperative principle in irrigation in the early seventies. Even before Statehood was achieved, on February 2, 1872, "the first meeting in the interest of co-operative marketing" was held at Namaqua, three miles west of where I was born in Loveland. The story of this first meeting and other pioneer cooperative activities in the State are described in Alvin Steinerl's valuable book, "History of Agriculture in Colorado."

Few people know that one of the outstanding early marketing cooperatives in the United States was the Grant Junction Fruit Growers Association, formed in 1889--just when my Dad arrived in the State. For many years the association was held up as a model for similar enterprises throughout the land. Its collapse around 1910 was due to a weakness in organization that plagued many cooperatives in the early days. It was formed as a capital stock company and gradually the stock became held by absentee farmers or others not interested as active growers in the service being rendered them.

I remember the intense cooperative activity in Colorado in the early twenties, for as a graduate student at Stanford University I was working on a study of the hard winter wheat pools. In the summer of 1925 I spent some time in Denver and attended a board meeting of the old Colorado Wheat Growers Association. One experience I will never forget was traveling with a fieldman for the pool on some trouble-shooting cases. We visited a farmer near Johnstown who was out in the field ploughing. We parked the car and went across the fields. The farmer was mad and he was burned up by our appearance. He said, "I don't like you sons of guns all dressed up and traveling around in purty automobiles at my expense." The fieldman was a master in public relations. He replied, "How do you want a representative of your business to look -- like you do?" This cleared the atmosphere and we got away without being bumped by a monkey wrench.

Well, we have learned a lot about cooperation -- and our cooperatives can stand comparisons in business performance with any other form of enterprise.

If you want to see how the cooperative picture has changed in Colorado during the past fifteen years -- sometime look over a copy of "Farmer Co-ops in Colorado," issued by the Wichita Bank for Cooperatives in 1939. It's full of interesting historical information, but the situation has certainly changed. Sometimes we have to look back to see how far we have come.

Before leaving Washington I gathered some figures together on the recent growth of agricultural cooperation in the State. They gave me quite a surprise.

While the number of farmers' marketing and purchasing cooperatives in Colorado has grown only from 111 in 1940-51 to 118 in 1951-52, the estimated membership in these co-ops has expanded from 42,140 to 75,048. These organizations increased volume of business from about $23 million to about $166 million in this same period, or by sevenfold. Even though prices have gone up appreciably we can safely say that the co-ops are doing more than double the volume in commodities of a dozen years ago.

I was also interested to find that Colorado has improved its rank among other States with respect to number of associations, membership and business volume. From 1940-41 to 1951-52, Colorado rose from twenty-fourth to twenty-third in number of associations, from twenty-eighth to twenty-sixth in number of members, and from twenty-sixth to eighteenth in business volume. This last advance in rank is particularly impressive.

I also found that the net value of farm products marketed by cooperatives in Colorado in 1951-52 amounted to about 26 percent of the State's total cash receipts from farm marketing. This figure compares well with the national State average of 22 percent, and with the record of 27 percent for the two highest States-- California and Illinois.

Colorado's record is less impressive on supply buying through purchasing cooperatives. Only about 13 percent of farm supply purchases are made through cooperatives in Colorado as compared with a State average for the United States of about 16 percent. The two most developed States in supply buying are Minnesota with 26 percent and New York State with 24 percent.

It's also interesting to see the extent of development in the State by various kinds of marketing cooperatives.

Grain co-ops lead with 22 associations and 18,790 members.

Although there are 28 fruit and vegetable associations they represent only 4,454 members.

The 8 dairy co-ops have 7,845 members.

The 7 poultry and poultry products co-ops have 5,700 members.

The 3 wool and mohair co-ops have 8,068 members, and the 3 livestock co-ops have 6,987 members.

The 3 sugar bargaining associations have 5,656 members.

The 40 purchasing co-ops have 17,210 members.

It can be assumed that some 25,000 farm families are represented in the total of 75,000 marketing and purchasing co-op members of cooperatives organized within the State, or about one out of two.

I have here a table which shows the estimated business of farmers' marketing, purchasing, and service co-ops by commodity groups in Colorado, for the year 1951-52. It includes business done with 13 co-ops with headquarters outside of the State, making a total of 131. We find that:

Ten co-ops did a net business for farmers in marketing of dried beans of $3,739,000; 10 dairy products co-ops did $14,712,000; 27 fruit and vegetable co-ops did $14,665,000; 26 co-ops did a net grain business of $23,530,000; 10 livestock co-ops did $61,626,000; 3 sugar-bargaining co-ops helped market products to the extent of $27,020,000.

We also find that 43 co-ops purchased petroleum for members valued at $5,967,000; that 38 handled feed to the extent of $3,012,000; that 22 handled fertilizer to the extent of $586,000; and 26 seed to the extent of $495,000. Altogether, some 97 co-ops handled various farm supplies with a total net value paid by farmers of $17,995,000.

To look at these figures another way, farmers are buying about one-third of their petroleum products and about one-sixth of their feed through cooperatives.

In addition to marketing and purchasing associations there are many other types of credit and service co-ops serving Colorado farmers. These include: 8 Production Credit Associations with 2,980 members; 16 National Farm Loan Associations with 4,260 members; 22 Rural Electrification Associations with 58,947 members; 1 Rural Health Association with 500 paid-up family memberships; 686 incorporated and 1,579 unincorporated mutual irrigation associations with more than 27,000 farmers participating. In addition, there are 4 mutual fire insurance companies with some $153 million of insurance in force. Other types of cooperative effort in Colorado include 20 dairy improvement associations with 350 herds participating and 1 breeding association with 1,255 herds participating.

With this background I wish to turn briefly to the topic assigned me, "Co-ops -- Better Community Citizens."

It seems to me self-evident that farmers in Colorado are showing by their participation and patronage that they sincerely believe that co-ops serve their needs. I can't believe that these thousands of farmers are kidding themselves, or that they are being misled by propaganda. I am sure that they are supporting these co-ops because it is good business to do so -- and because they like to have a voice in the way they are being served.

It seems to me self-evident that co-ops make better citizens in a community, for co-ops give people a wider interest in economic and social affairs through participation. Where there are live, active, efficient co-ops communities thrive, for people belong to something significant that they are proud of.

Several years ago I listed a number of ways in which cooperatives benefit local communities -- and I still think they hold water.

1. Cooperatives create a better rural business environment. They give country people a stake in their own home towns. Farmers have a right to good towns to trade in, just like town people. When farmers have their own business establishments in a town, they become interested in the welfare of the town and its problems, and antagonism between town and country is broken down.

2. Cooperatives keep profits at home for they are owned by local capital. Unlike big corporations, co-ops don't sieve off earnings to distant industrial and financial centers. If there are savings made by cooperatives, they stay right in the community to help buy such things as food, clothing, furniture, amusement, and insurance from local business institutions. Savings also go into community projects like churches and education.

3. Cooperatives improve wealth-producing power. Better grading, packaging, and standardization have all been promoted by cooperatives. Cooperatives let farmers know what consumers want and encourage them to produce what the market needs. The cooperative simply sets up a merchandising department for farmers. Thus cooperatives improve the wealth-producing power of local communities. In looking over a map of the United States one generally finds that where there are strong cooperatives there are also prosperous business communities.

4. Cooperatives preserve competitive conditions. Cooperatives make competition and thus bring about progress. If cooperatives were not forcing the pace in competition, there would be little criticism of them. That I think is the main reason why they are being opposed--not because of alleged income tax advantages.

   No other agencies except the Government itself can as effectively combat monopolies. Monopolies strangle opportunities for small business. Cooperatives break down the grip of monopolies, thus giving small business firms an opportunity to survive. This argument was supported by the recent statement of an independent oil man. He urged the independent oil companies to realize that the cooperatives were the independents' best friends since they were most effectively fighting the battle to maintain a free oil market.

   Strange to say, there are more small business firms today than ever before, even with the growth of large corporations. Let us ask, have the chain stores or the mail order firms killed small business? Would it be a better world without chain stores, or mail order businesses? If there is a place in the picture for types of business largely owned outside the rural community, why shouldn't there be a place for locally-owned cooperative business corporations?

5. Cooperation protects the small farmer as well as the big farmer and thus sustains the population around urban centers. Many small farmers could not operate efficiently without cooperation and their farms would increasingly fall under control of large operators. As it is, the small farmers joined together with neighbors, both large and small, can buy as cheaply and market as economically as can the large corporate firm. To my mind, one of the strong arguments in favor of cooperation is that it protects the family-size farm.

   This is important to business people because it means that more farmers are left on the farms to support nearby farm towns. I believe it is clear that the greater the population around rural towns, the more customers there will be for more types of local business establishments. By sustaining the rural population, the cooperatives provide customers for the business establishments in rural trading centers. Back a number of years ago I made a study to determine whether the number of business failures in Nebraska was affected by the purchasing power of the farmer. This study conclusively demonstrated to me that the business firms in agricultural communities cannot ignore measures that will help maintain the prosperity of the farmers who support those communities.

6. Cooperatives are a safety valve. Co-ops give the farmer a voice in his own business affairs. That makes the idea of democracy mean something to farmers. Get rid of cooperatives and you would find that you had lost a safety valve of great significance. Farmers would then turn to Government for more political mass action if they didn't have a chance to work out many of their own problems cooperatively. H. L. Babcock in a recent issue of the Cooperative Digest emphasized this point. He said, "If the small operator does not get real help through cooperative action, he will turn more and more to Government for assistance."

These six reasons all boil down to this -- co-ops are good for the farmer, therefore they are good for his community and the small town where he does his trading. The rural community's prosperity rises and falls with that of farmers. If a co-op can make farmers more prosperous it then follows naturally that the co-op is good for the community.

I wish to close on a challenging note. Co-ops, as organizations, must accept the responsibility of being leaders in community affairs. They should not attempt to live unto themselves alone. Rather, they should put their shoulders behind civic activities which will make better rural communities.

FROM THE GROUND UP 1/

By Joseph G. Knapp, Acting Administrator
Farmer Cooperative Service, U. S. Department of Agriculture

Just about a year ago Harold Hedges, then Chief of our Cooperative Research and Service Division, came into my office with a letter and said, "I am invited to address the 40th Anniversary Meeting of the Farmers Union State Exchange next February. If I can't get there, will you substitute for me?" I said I would. Harold was pleased with this invitation for he loved Nebraska and its people. He had been born at Indianola and he grew up in the shadow of a cooperative elevator that his Dad managed. Cooperation was in the blood of Harold Hedges.

Little did I think that Harold would not be able to be here -- but, as you know, he was struck down by a heart attack on May 18 of last year. I come then as his representative, but on a mission which I feel honored to undertake. Moreover, I speak to you almost as a Nebraskan, for at one time the part of northern Colorado where I was born was in the territory of Nebraska.

I have entitled this talk "From the Ground Up," for the title comes from Nebraska. Several months ago President Chris Milius with his wife dropped into my office in Washington, and I mentioned this talk that I had agreed to give tonight. In the course of the conversation he said, "The State Exchange has grown from the ground up." I said to myself right there -- I'll use that for my theme.

I am proud to have this opportunity to address you today. This is the oldest of the regional purchasing cooperatives of farmers, and the record of your years of continuous existence is an inspiration of what can be accomplished by free men working together.

The thing that has always impressed me about your organization is its democratic character. It has sprung from the folks themselves. When we speak of something "from the ground up" we think of something that is well based -- that will stand up and live. That's the way I see your organization. It grew right out of the earth of Nebraska. It's stood for 40 years and it's stronger than ever.

On an occasion like this I believe we should look back to the conditions which prevailed when the Farmers Union State Exchange was started. We should ask ourselves, why was the Exchange formed? What were its early aims? How successful has it been in serving the needs of Nebraska farmers? What lessons can be learned from its experience? Is there still a need for the Exchange? What can be done to make the work of the Exchange even more useful?

Much has happened in the forty years since the Exchange was born. In fact, most of those who were its early leaders have passed on. Few of those here today were actively farming in 1914--the year of the State Exchange's birth. Think of all that has happened since. Two world wars plus the Korean war--periods of boom prosperity and of the direst depression.

1/ Talk given at 40th Anniversary Meeting of the Farmers Union State Exchange, Omaha, Nebraska, February 8, 1954.

I can remember some of these changes, for I came to Nebraska in 1919 to attend the University of Nebraska. I watched the old State House gradually give way to your magnificent State Capitol -- to me the noblest work of architecture in the land. I have traveled over your State on many occasions -- during periods of flood and drought. I can feel some of the changes that you have come through.

In this talk I am going to try to recapture some of your past for our use in the present. History is not something we can leave behind. It helps us to understand who we are and where we are going.

As a student at Lincoln, I can well remember the replacement of the old State capitol by the present edifice. Those were hard days in Nebraska -- 1920, 1921, 1922, and 1923, as the history of your Exchange bears witness, yet the new Capitol began to rise -- on a pay-as-you-go basis. I well remember Governor Charles W. Bryan and his interest in conserving the use of State funds. One day in the winter of 1923, when we were studying public finances under Dr. G. O. Virtue at the University, I wanted to get a current bill that was being considered by the Legislature. On my way to an 8 o'clock class I passed by the old Capitol about 7:30 a.m., and decided that I would go in and see if the janitor could get me a copy. As I entered the building a gentleman in a skull cap saw me and inquired what I wanted. I told him, and he got the bill for me, saying that he was glad that students were interested in the problems of the State. The man who so helped me was Governor Charles W. Bryan.

It seems significant to me that Nebraska gave the Nation one of its first Secretaries of Agriculture -- J. Sterling Morton -- who will ever be remembered as the founder of Arbor Day. The first Arbor Day was celebrated in Nebraska on April 10, 1872, and the day is now celebrated annually in every State of the Nation. The idea was a simple one -- we must plant trees to replace those cut down or destroyed by fire. When Arbor Day was started Nebraska was fast being denuded of trees by the early settlers in clearing their lands, or for firewood. The conception of Arbor Day was one of the first great steps forward in the conservation of our national resources. I like to think of Morton's philosophy as it applies to cooperation. We must keep on planting new cooperators. If we do we will always have new growth to take the place of the old. Cooperatives are like trees -- they need nourishment and encouragement. But what is finer than a tree or a sturdy cooperative organization that has grown in rich soil. While it's true that "only God can make a tree," we can give Him a lot of help. Likewise, each of us can help make a cooperative. No man can make one all by himself.

I wish that time permitted me to dig back into Nebraska cooperative history to its foundations -- almost to the time when Nebraska became a State in 1867. It is common knowledge that the grangers in Nebraska turned to cooperatives in the hard times of the early seventies. From then on, there has never been a time in Nebraska without cooperatives. During the eighties Nebraska was a center of Farmers' Alliance activity and many cooperatives were formed in its wake. It was in the early 1900's that cooperation really began to take hold. The grain growers found from bitter experience that they had to organize or be content with a state of peonage. Getting a toehold against the established grain marketing "combines" of that time was not easy. Great personal sacrifices were made by the resolute few who "bet their lives" on the idea that cooperatives were the answer for the farmers' needs.

One of those who contributed most to the establishment of these cooperative elevators was my old friend at the University of Nebraska -- Professor H. C. Filley. Almost fifty years ago he was helping set up a cooperative elevator. He was active in organizing many more and, in 1911, as a member of the Legislature, he worked for the passage of the law that provided for distribution of patronage dividends. Incidentally, Filley, in 1913, as Professor at the University of Nebraska, taught one of the first college courses devoted largely to agricultural cooperation.

I would like to mention two other great Nebraska cooperative leaders who helped set the stage for the development of the Exchange -- Cuthbert Vincent and especially J. W. Shorthill, whom I well remember.

I have not been able to find much information on the beginnings of your State Exchange over 40 years ago, but we can imagine the circumstances which were responsible. In a nutshell, farmers found themselves paying exorbitant prices for supplies of mediocre quality. They could not produce efficiently under these conditions, and they decided to do something about it -- set up their own central buying organization.

It was a time when farmers were beginning to realize the need for working together in purchasing cooperatives. All over the State, under the influence of the then new Farmers Union movement, emphasis was being given to the establishment of buying clubs and cooperative stores. It was soon found that there was a need for a central buying agency as it was obvious that local buying groups couldn't exert much bargaining power separately.

While cooperation in Nebraska goes much further back than 1914, it was in that year that the State Exchange was begun -- and that is a significant fact in cooperative history in the United States -- for the State Exchange is the oldest of the regional purchasing federations. Although the Fruit Growers Supply Company was formed in California in 1907, it was a specialized buying agency for citrus cooperatives and closely related to the California Fruit Growers Exchange -- now the Sunkist Growers -- and not a general buying organization for all types of farmers.

I mention these things to indicate that cooperation is not a new factor in Nebraska life. It has been growing -- by fits and starts, and by slow accumulation of knowledge and experience -- for some eighty years.

Now, let us return to the story of the State Exchange. Whoever the pioneers were in starting the State Exchange, they deserve honor. Little did they realize -- or perhaps care -- that some 40 years later we would acknowledge their foresight and pluck. However, one name should not be forgotten in this early development -- C. H. Gustafson who, as President of the Nebraska Farmers Union, was an intense believer and advocate of the cooperative way of doing business.

The records indicate that the State Exchange started out on a very modest basis as a purchasing department of the newly-formed Farmers Educational and Cooperative Union of Nebraska. Opening for business in June 1914, it did only a business of $60,000 during the balance of the year. The next year volume jumped to $320,000 and the next to $1,000,000. In these early days the main supplies handled consisted of mill feeds, tankage and oil meal, groceries, clothing, flour, coal, salt, fence posts, seeds, oil and grease, wire, binding wire, paints, potatoes, apples, beans, and similar bulk commodities. Much of this business was done on a mail-order basis with individual members or secretaries of Farmers Union locals.

In 1916 this department was separately incorporated "so as to get away from unlimited liability." However, the character of the enterprise did not change as all of the stock was held by the State Farmers Union and the directors of the Union constituted its board of directors. In 1919, however, and after legislation made it possible, the Exchange was thoroughly reorganized and set up ... on its own feet as a cooperative association with its own board of directors.

During these early years the Exchange was becoming more and more a federation of locals and gradually since that time the locals have acquired the common stock, making the Exchange a true federation.

While the war years lasted -- with high farm prices and steady demand for farm products -- the Exchange flourished. In 1917, volume jumped to $1,800,000. The next year it reached $2,720,000 and in 1920 it reached $3,000,000.

Following the reorganization of 1919 -- with the enthusiasm of good times -- Farmers Union members invested several hundred thousand dollars in Exchange stock. It is significant that the net worth of the Exchange reached $460,528 on December 31, 1919, and almost doubled during the next year.

Then with the abrupt decline in prices in 1920, the crash came. Sales collapsed, leaving the organization overburdened with inventory. The losses during the next three years were terrific, and it is a miracle that the State Exchange survived. Within the years 1920, 1921, and 1922, almost $400,000 was lost -- one of the greatest losses ever suffered by a cooperative company in the United States. Fortunately, farmers had provided adequate capital to stand the blow. Although the capital was impaired it was not wiped out. The cooperators of Nebraska then found that running a cooperative business is not all gravy and that cooperatives, like every other business, must learn the facts of business life. The lesson that was learned here almost thirty years ago has lasted up to the present day.

In January 1922, almost at the darkest hour -- as Winston Churchill would say -- Con McCarthy was made manager of the Exchange. This was the condition he found, as reported in the Nebraska Union Farmer of June 28, 1922, and it also gives an idea of what was done about it.

"The year 1922 found us facing a serious situation; our credit was being questioned; stocks of goods on hand were large beyond reason, most of which had been purchased at high prices; disloyalty and intrigue seemed rampant among employees; about one-half our capital had been dissipated; and expenses were running unreasonably high. Our first duty was to select efficient department heads while in the meantime appeasing our bankers with securities and promises. At the present time we are buying only for our immediate needs, reducing our stocks, and applying the proceeds on the debts. Our accounts payable have been reduced, and since March 1 we have discounted all our bills. We have reduced our notes payable $45,000, and kept a comfortable balance in the bank."

Speaking in 1944 at your Annual Meeting, Manager McCarthy referred back to these days and said:

"Twenty-two years ago the Exchange, to put it bluntly, was bankrupt. Only the loyalty of the Farmers Union members of the State kept it going. ... Two years of that sort of training takes the enthusiasm for speculation out of most of us, especially with a $375,000 deficit staring us in the face."

Right here I wish to pay tribute to Con McCarthy -- one of the great figures in Nebraska and American cooperative history. I am proud that I knew him, and worked with him on several occasions. It's men like McCarthy who have really rooted cooperation in America. He was a fair and practical man but he knew what he was working for -- the making of a cooperative organization that would serve members, and thus the citizens of this country. Another I would like to recall tonight is H. G. Keeney who, as President of the Farmers Union of Nebraska, long gave farmer cooperatives his whole-hearted support.

Things began to improve in 1923, when net earnings of $9,600 were made on total sales of $1,335,000. In 1924 sales stayed about the same -- $1,347,605 -- but earnings increased to $20,648.

In 1925 it was decided to write down the value of shares from $25.00 to $12.50. This wiped out the deficit and made it legal to pay dividends on stock and patronage refunds. Sales in 1925 increased a little -- to $1,521,311, and net earnings increased to $36,633. This made possible a 4 percent dividend on capital stock.

Most of you know how your organization has gradually expanded and strengthened since those desperate days. The record is not spectacular, but the progress has been constant, until your annual volume of business has reached over seven million dollars and your members' equity over 2 million dollars.

Your facilities are improved and you handle many new supplies. To supplement your services, your organization has joined with other regionals in the National Co-operative Refinery Association and National Cooperatives, Inc.

The progressive record of the State Exchange has continued under the able management of Wilbur Jenny who succeeded Con McCarthy a few years ago. Like Con, Wilbur has his feet on the ground, and it is a pleasure to work with him. Wilbur also believes in building on an increasingly strong foundation.

Where do you go from there? I think the answer is obvious. You must keep on growing, using the lessons from the past and research in the present. You know as well as I that your organization cannot stand still -- that its opportunities in the future are greater than its accomplishments in the past. You best can determine how fast and in what directions you want your State Exchange to travel.

I would like to close this talk on a personal note. There is an old expression that a prophet is not honored in his own country. I think that is apt to be true. We take for granted the familiar until it is frequently too late to show recognition of its true worth. Abraham Lincoln was not recognized in his lifetime for his greatest accomplishments.

That is why I take pleasure tonight in paying tribute to your cooperative philosopher, L. S. Herron who, for most of the lifetime of your organization, has been spreading the gospel of self-reliance through cooperation. Mr. Herron's whole approach to cooperation is based on the belief that one should mind one's own business. To do this well people must work together by means of cooperatives. It is a simple philosophy -- one which promotes neighborliness and good will to an economic philosophy. Some day I hope to see a beautifully printed volume comprised of some of Mr. Herron's best editorials. In this way, his thinking would continue to guide your organization and like organizations throughout our land. I wonder if the influence of a man like Herron can ever be fully assessed, for so few of us realize where our ideas come from. When a prophet's work is done, people accept as natural the things he stood for -- when few stood for them. The pioneers get their satisfactions in the realization that others will accomplish their dreams after they have gone.

Let me quote here a few passages from some of Mr. Herron's editorials in the Nebraska Cooperator during 1951 and 1952:

> "Successful cooperation must be voluntary and spontaneous. It must spring from inner conviction and spirit. Inner conviction and spirit can be cultivated and developed only by education and persuasion."

> "Cooperation, as exemplified in cooperative enterprises, is an economic doctrine. It is recognized in economics as one of the 'associative' means, in which people join together to do things for themselves, rather than look to the government to do things for them."

"Cooperatives do not cause any revolutionary upheaval ... Just as far as applied and extended, cooperatives establish economic equity and justice without coercing anybody to be a member; without bureaucratic machinery; without turning business over to the politicians; and without abridging freedom or tearing down the private enterprise system."

"It is the truth that the cooperative idea is the most powerful force to combat communism. By the cooperative idea, we mean the idea of the people, voluntarily through their own cooperatives, establishing economic equity and justice in a free system."

"Genuine competition is the effective remedy against price-fixing collusion in any line. Cooperatives furnish genuine competition because they are owned by their patrons, and patrons have no incentive to practice collusion to 'gyp' themselves."

"Students of propaganda say that one of the most effective forms is what is called 'band-wagon' propaganda... A great deal of band-wagon propaganda is pure hoop-la. This we do not want in the cooperative movement. But--there is value in showing the number of people in the movement, the number and kinds of cooperatives they have, and what they are accomplishing. "

"Both idealism and business sense are necessary to the success of cooperatives. George Jacob Holyoake, historian of the Rochdale Pioneers, wrote of them that they had their heads in the clouds and their feet on the ground. This is the kind of cooperators who make cooperatives successful. ..."

"Now and again here in Nebraska, we hear the lament that we do not have the fighting spirit among our members that was present in the early days of the movement. ... People cannot always live on a plane of intense excitement. ... What our movement needs at this stage is just quiet determination, not based on anger, but on a well thought out program of cooperative expansion and extension."

I maintain that those are great thoughts -- worthy of record.

It is oftentimes alleged by enemies of agricultural cooperation that cooperation is an alien philosophy which was imported into the United States. If so, it came with the spirit of liberty when the Pilgrims landed at Plymouth Rock.

You folks in Nebraska know the absurdity of such propaganda. You know that cooperation developed as naturally in Nebraska as the wheat, corn, grass, and livestock. The first cooperatives in Nebraska go back to your first settlers. I would give this answer back to those who charge that cooperatives are not 100 percent American. What is American? I think the answer is the deep-down determination of each one of us to fight for our liberties, be they political or economic.

You have come a long way in the past 40 years -- but the big question before you tonight is, where are you going in the next 40 years? This afternoon one of the questions raised was "What is the greatest need of the State Exchange?" The answers from the floor were "a fertilizer plant," "education," and "loyalty." Later in the meeting it was dramatically maintained that the greatest need of the Exchange was the interest and support of young people. That, I think is your biggest problem -- to keep your organization reinvigorated by attracting the interest and patronage of the oncoming generation. Young people demand young organizations, or at least organizations that keep themselves young.

It has been a great pleasure to be with you tonight. May your future be worthy of your past.

Statement for use of Departmental Advisory Committees

THE FARMER COOPERATIVE SERVICE

What it is and how it functions.

The Farmer Cooperative Service provides research, advisory and educational assistance to farmer cooperative associations. Work of this kind has been carried on continuously by the U. S. Department of Agriculture since 1913 when Congress appropriated specific funds to help farmers on their cooperative problems.

This work is now performed under the authority of the Cooperative Marketing Act of 1926, which established a Division of Cooperative Marketing in the Department of Agriculture. This Act did not provide for government control, supervision or subsidy for such organizations. Rather, it provided for research, advisory and educational services to help farmers help themselves by more effectively organizing and operating their own associations for marketing, purchasing, and other business needs.

This work was carried on from 1929 to 1933 in the Federal Farm Board, and from 1933 to 1953 in the Farm Credit Administration. When the Farm Credit Administration became an independent agency in 1953, the Farmer Cooperative Service was created to carry on this work. It was set up in the Federal-States Relations group of Services, since much of its work is done in cooperation with land-grant colleges and other state agencies. President Eisenhower referred to this action as being "in line with our efforts to strengthen farmer cooperatives".

We - in the Farmer Cooperative Service - see our job as helping farmers to improve the organization structure and performance of their cooperatives. The foundation of our program is research, and our research is designed to determine how farmer cooperatives can be most efficiently set up and operated. There are over 10,000 marketing and purchasing cooperative associations and many more which render other business services for over three million farmers. Their problems that can be helped by research are many, varied, and often complex. They relate to such areas as form of organization, finance, management, accounting, merchandising, membership relations, procurement of farm supplies, warehousing, transportation, and insurance. Whenever possible, we endeavor to make studies which will serve the needs of groups of associations so that the benefits can be widely dispersed.

Research is of little value unless put to use. Our advisory service work for cooperatives is based on our research findings. This work is carried on to help a cooperative or a group of cooperatives meet a specific problem. It may involve assistance on an operational difficulty, a financing weakness, or a membership situation. In order to give practical help on such problems, we draw on research for the best answers. The research workers on our staff also do the advisory work with cooperatives. It is part of their responsibility to get the results of research into effective use.

Our educational work is likewise a staff function and is largely based on our research findings. Our primary job in education is to provide information that can be used in furthering knowledge of sound cooperative organization, principles, and practices. We prepare source materials needed by county agents, college and vocational teachers, research workers, cooperatives, farm organizations, and many others. For example, one of our primary responsibilities is preparation of national statistics which show trends in number of associations, memberships, and volumes of business for farmer cooperatives.

The Farmer Cooperative Service has participated in marketing research work authorized by the Agricultural Marketing Act from its inception in 1946. Funds for this work are assigned to this agency through the Agricultural Marketing Service to take full advantage of our experience and qualified research personnel. It is recognized that our continued close working relations with cooperative marketing firms give us access to a fund of basic marketing information and provide facilities for pilot experimentation. Since farmer cooperatives market a significant proportion of many agricultural products our marketing research findings based on their operations have broad industry application.

In line with the objectives of the Agricultural Marketing Act, marketing research work carried on by the Farmer Cooperative Service under the Agricultural Marketing Act is designed to serve all marketing agencies and farmers rather than serve the exclusive interests of cooperatives and their members. This policy has been consistently followed. Frequently, projects are conducted on a joint basis, with the Farmer Cooperative Service responsible for obtaining data from cooperatives and Agricultural Marketing Service responsible for getting similar data from other firms.

The work of Farmer Cooperative Service is conducted through commodity and functional branches grouped into three program divisions - marketing, purchasing, and management services. The attached article, "Farmer Cooperative Service Gets Underway" shows our organization and structure.

Farmer Cooperative Service Gets Under Way

by JOSEPH G. KNAPP
Administrator,
Farmer Cooperative Service.

ON DECEMBER 4, 1953, the Farmer Cooperative Service of the U. S. Department of Agriculture started its legal existence. However, the work that it performs in helping farmers with their cooperative problems was begun in the Department over 40 years earlier when Congress first appropriated funds for this purpose.

The birth of the Farmer Cooperative Service came about through two developments: (1) The enactment of the Farm Credit Act of 1953, approved on August 6, 1953, and (2) the reorganization of the Department of Agriculture on November 2, 1953.

Under the provisions of the Farm Credit Act of 1953, the Cooperative Research and Service Division was transferred from the Farm Credit Administration to the jurisdiction and control of the Secretary of Agriculture. This Division was originally established by Act of Congress in 1926 as the Division of Cooperative Marketing in the Department of Agriculture. This Act authorizes research, service and educational work in agricultural cooperation.

When the Farm Credit Act became legally effective on December 4, 1953, the Cooperative Research and Service Division of the Farm Credit Administration therefore became the Farmer Cooperative Service.

FCS In New Group

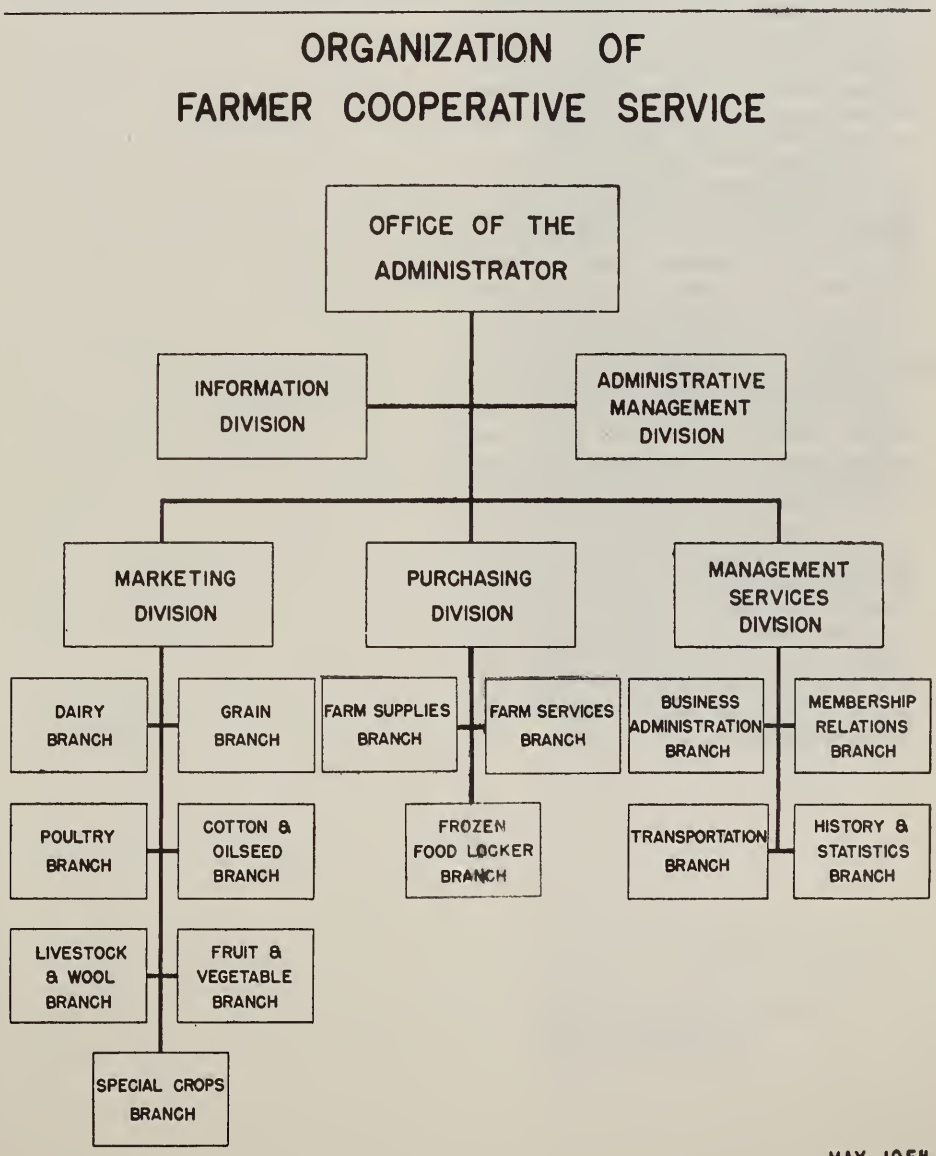
Under the Department reorganization plan, the Farmer Cooperative Service now carries out the provisions of the Cooperative Marketing Act of 1926. Since the work of the Farmer Cooperative Service is performed in close relationship with the land-grant colleges, Federal and State extension services, and other State agencies, the Farmer Cooperative Service was placed in the Federal-States Relations group of six Service agencies which report to Assistant Secretary J. Earl Coke. The other five Services in this group are Agricultural Research Service, Federal Extension Service, Forest Service, Soil Conservation Service, and Agricultural Conservation Program Service.

In setting up the new Farmer Cooperative Service it was necessary to provide for certain general administrative and information functions previously performed for it by the Farm Credit Administration under the appropriation for this work. This makes the Service a self-contained and complete organization.

Under the plan of organization for the Farmer Cooperative Service approved by Assistant Secretary Coke on December 8, 1953, program activities are carried on by divisions for marketing, purchasing, and management services as shown on the chart. It will be noted that management for the Service—the provision of personnel, accounting, budgeting, pay roll, and other "housekeeping" functions—is provided by the Administrative Management Division, while all publications such as bulletins, reports, and NEWS FOR FARMER COOPERATIVES are edited and issued by the Information Division.

Let us look briefly at the three program divisions through which farmers and their cooperatives are served. The Marketing Division—with J. K. Samuels as Director—groups all branches which work directly with cooperative marketing activities of farmers. Since cooperative marketing is usually carried on along commodity lines, branches are set up to work with the specialized problems of grain, livestock and wool, poultry and eggs, cotton and oilseeds, dairy products, fruit and vegetable, and special crops—tobacco, sugar, rice, dry beans, honey, and others—cooperatives.

The Purchasing Division—with M. A. Abrahamsen as Director—conducts work relating to cooperative purchasing activities of farmers. Under it are grouped branches which



work with farmers on problems of cooperatively purchasing feed, seed, fertilizer, petroleum and other farm supplies and farm business services such as insurance, irrigation and frozen food locker plants.

The Management Services Division—with K. B. Gardner as Director—carries on work of general interest to all marketing and purchasing associations. It works across commodity lines with farmer cooperatives on special problems of management, membership, organization, financing, transportation, and the like, while it also serves the staff of the other two Divisions in a technical consultant capacity on such problems arising in their work. One of the branches in this Division—the History and Statistics Branch—develops, in collaboration with the cooperatives, the national statistics on farmers' marketing and purchasing activity.

The work of the Farmer Cooperative Service falls into three major areas: (1) research, (2) service or technical assistance, and (3) education. However, these three areas overlap, for research studies provide the basic information for service and educational activities. Assistance and advice to these farmer cooperatives would be of little value unless backed by good solid research.

Let me give an example. Assume that a group of farmers, joined in a cooperative, desire information on how they can meet an important problem. They discuss this problem with the Extension workers of their State and come to the conclusion that they wish to call on the Farmer Cooperative Service to help them on the problem. In order to provide the help desired it may be necessary for the Farmer Cooperative Service to make a special study of the problem which may require several weeks of work in the field and some work in the office analyzing data. On the basis of this research helpful "service" or "technical assistance" can be provided.

A later article will describe in more detail the character of the work performed by the Farmer Cooperative Service. Our main purpose in this article is to call attention to the fact that the Farmer Cooperative Service is now set up to carry on in an effective way the work which was performed by the Cooperative Research and Service Division prior to December 4, 1953.

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JOSEPH G. KNAPP, Administrator

THE CONTRIBUTION OF FARM COOPERATIVES TO AGRICULTURAL WELLBEING 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service, U. S. Department of Agriculture

I wonder whether many of you have ever attempted to determine what your farmer cooperatives have meant to you in the State of Washington. It is always hard to determine the value of things one has, for things have a way of becoming a part of us. Many a man has taken his wife for granted and done little to show appreciation for her contributions to his welfare until sickness has upset normal routines. I believe that's the way it is with our cooperatives. We accept them -- even crab about them at times -- but we don't show our appreciation until sometimes it may be too late to be effective.

I once traveled down the road through rural New York with Jim McConnell, then General Manager of the G.L.F. I asked him if he could see in the fields and farmsteads any results of the G.L.F. He replied that he saw them on every side -- that rural New York would be a far different place without the G.L.F. I believe the same thing is true in large areas of Washington State. The cooperatives have had an impact that is so pervasive that it is accepted as something as natural as the air.

Before leaving the office I asked Miss Gessner, Chief of our Statistical Branch, to assemble data for me on the progress of agricultural cooperatives in Washington State. Do you know that your State rates 15th in volume of business done by cooperatives? Altogether, cooperatives in Washington handled a gross volume of $354 million in products marketed for farmers or in supplies purchased for them during 1952-53. The net volume, after eliminating the duplication resulting from inter-association business, amounted to $268 million. This is big business -- but it is an aggregation of small community enterprises, federated and centralized together. This business was contributed by 193 cooperatives of various types, representing a total membership of 106,000. Allowing for the fact that some farmers may belong to more than one association, it is estimated that over 50,000 farmers are members of cooperatives in Washington, or about two out of every three.

1/ Address given at Eighteenth Annual Meeting of the Washington State Council of Farmer Cooperatives, New Washington Hotel, Seattle, Washington, May 8, 1954.

Cooperatives a Normal Part of Free Enterprise System.

During the past ten years agricultural cooperatives have been under heavy attack. Their opponents have endeavored to lodge in the minds of the public by all the arts of propaganda that cooperatives are not a normal part of the American system of free enterprise. Such propaganda often falls on fertile ground because the cooperative side of the story is not adequately known. In fact, supporters of cooperatives have too frequently permitted themselves to be placed on the defensive, in which they spend their energies in meeting sniping attacks, while what is needed is a broad constructive presentation of the great contributions which American cooperatives make to agricultural wellbeing and the preservation of the kind of America that we call the free enterprise system.

Dr. Burt Wood yesterday stressed the importance of "communicating" our ideas. Those of us who believe in cooperatives must be able to persuade others that our belief in cooperatives is based on sound thinking for the common good.

In this talk I am taking the offensive. On the basis of some thirty years of experience working with farmer cooperatives of all types in all parts of America I maintain that there is no influence more healthy to the preservation of our American heritage than agricultural cooperatives.

What is the American heritage? I believe it is a deep belief in human freedom and fair play, a tolerance for the opinions of others, a willingness to work together for common objectives, a respect for private property and the rights of others. These thoughts are most beautifully expressed in the famous passage of our Declaration of Independence, "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with inalienable rights, that among these are life, liberty and the pursuit of happiness."

I assert that farmer cooperatives contribute to the preservation of an America which cherishes these truths. This I will endeavor to demonstrate in this talk. I will endeavor to show that farmer cooperatives contribute to the material and spiritual prosperity of agriculture as well as to the total national economy. I will endeavor to show that farmer cooperatives, both large and small, are simply organizations of individual farmers which carry on essential functions needed by our farmers and by our society as a whole. I will endeavor to show that farmer cooperatives enjoy no special privileges or favors denied by law to any other group or organization which may elect to accept the same restrictions that are self-imposed by the members of cooperatives. On the other hand, I do not assert that cooperatives are perfect -- for they are man-made institutions. They are like all democratic organizations -- they have their strengths and weaknesses. All that I am saying is that cooperatives should be given a fair deal at the bar of public opinion. If they are -- and the extent to which they are depends upon the ability of cooperatives to present their position faithfully and effectively -- I have no doubt of the long-time future of these enterprises.

I recently heard a respected British economist -- who is an outright critic of the philosophy of the welfare State -- maintain that cooperatives should be encouraged as a means of fostering and preserving competition in economic life. If more economists would objectively study cooperatives rather than ignore them as of only sideline importance or take the opinions second-hand of others who have got their opinions second-hand, we would have a greater public understanding of the role they perform. As it is, some economists are like the medieval monks who were talking about an elephant. One said, on the basis of what he had read, that an elephant had two tails and no head. Another maintained on equally good authority that an elephant had two heads and no tail. A third said that they should go find an elephant and see for themselves. This was heresy, and he was properly punished for his impudence. I would like to see more economists go out and visit a cooperative before they express themselves as to what a cooperative is -- even if this makes me a "heretic."

"Tax Dodgers" -- a Smoke Screen

Before going further -- let's consider the frequently-heard question. Are cooperatives tax dodgers? Cooperatives are primarily attacked with the charge that they do not pay income taxes like competitive corporations. Opponents use this charge mainly to compel cooperatives to cease being cooperatives -- for as long as they are cooperatives they do not earn taxable income comparable to the income earned by non-cooperative enterprises. Any non-cooperative enterprise can elect to operate as a cooperative on a non-profit-making basis if it wishes to enjoy the so-called tax advantages granted by law to cooperatives. The rules of the game are fair. Within our system of free enterprise there is room and need for both cooperative and non-cooperative types of enterprise.

This charge that cooperatives do not pay taxes is a smoke-screen to confuse the unwary. It is a hard charge to combat for it sets up a prejudice that can only be met by a knowledge of the true facts. No one respects those who do not pay their taxes. The fact that cooperatives pay taxes on a different basis -- because they are organized in accordance with law on different principles -- is not admitted by the opponents of cooperatives. If they admitted this one fact their whole propaganda edifice would fall. There is only one thing that will satisfy the opponents of cooperatives -- the emasculation of cooperatives by forcing them to operate like all other corporations. If they could accomplish this end -- no one would be gainer, and farmers and the general public would be the losers. It would be a sad day in America if everyone had to operate a business in exactly the same way -- if people themselves couldn't do things cooperatively which they wish to have done. Cooperatives ask no special favors that they deny to others and they see no reason why they should be denied by law the right not to make a profit if they prefer to do business on a non-profit-making basis.

Let us now turn to the question -- how do farmer cooperatives contribute to agricultural wellbeing?

Provision of an Efficient Method of Organization

The object of a cooperative marketing or purchasing association is to help farmers improve the efficiency of their farming operations. Farmers join cooperatives in order to get the kinds of supplies they want at lowest possible prices or to get the best possible returns in the marketing of their products. The logic of cooperative operations lies in the fact that many can do together what one could not do for himself. Cooperatives simply enable farmers to get for themselves the advantages of large-scale organizations. Without cooperatives farmers would be dependent upon the services otherwise available. If they were not satisfied they would have little recourse -- unless we assume perfect competition which always assured them of satisfactory service. They would have no way of injecting competition into the market as they now do.

The record of the past does not indicate that farmers can rely on the perfection of the market place. Many farmers know from experience how their cooperatives have lowered distributive margins and broken many monopoly practices. They know that cooperatives in many instances have forced the competitive pace to their advantage as members -- as well as to the advantage of non-members.

The economic justification for farmers' cooperatives is that they meet economic needs and save farmers money. Farmers join and support cooperatives because it is good business for them to do so. By combining the volume of many farmers, cooperatives can economically market farm products for them or purchase their supplies on an efficient cost basis. Probably the cooperatives in Washington save for Washington farmers 10 million dollars annually, as shown by their patronage refunds and equity records. Cooperative marketing associations also provide the type of marketing or purchasing services which farmers require. These organizations are controlled and directed by the farmers themselves who know how they wish to be served. Their organizations naturally must be respectful of their wishes for they are the bosses.

Help on Farm Management Problems

As I have observed cooperatives over the years, I have been impressed with the help they have given farmers on problems of farm management. This isn't strange when one realizes how important are the off-farm services that a cooperative can provide. How well a man farms often depends upon his source of supplies and the knowledge of how to use supplies and upon his ability to sell his crops at good prices. In fact, if there are good cooperatives around from which he can get advice as well as the type of service needed a man can get a good share of his farm management job done for him and done efficiently and with reasonable cost.

Assistance on Surplus Control

One of the recurring problems of farmers is over-production. We know that cooperatives cannot entirely solve this problem, for they do not have ability to control all of the supply of a commodity - and of substitutions for the commodity. Many of you remember how Aaron Sapiro peddled the attractive theory that farmers should endeavor to develop 100 percent control of supply through iron-clad contracts -- and how this theory fell down in practice.

All that a cooperative can do is administer the supply provided by its members in the market. This is a sizable service for many cooperatives have been able to help in stabilizing markets.

Moreover, when industry programs of market control are carried on by means of marketing agreements or orders, cooperatives can perform a very important role as they can effectively represent producer interests as distributors in the market.

Finding Market Outlets

Many cooperatives have performed an invaluable service for their members in finding market outlets. Probably the most striking illustration of this is the case of Sunkist, but there are many agricultural areas that owe their place in the sun to the job done by their cooperatives in finding outlets for what they produce. A cooperative marketing enterprise isn't like other enterprises which can leave an area when the trade dries up. The cooperative has to find market outlets or dry up itself. This gives cooperatives a tremendous incentive to find market outlets if this is at all possible. There is no easy way out for a cooperative.

Training Schools for Democracy

One of the basic principles of the founders of agricultural extension work in America was the idea of "learning by doing." In the early days great emphasis was placed on the demonstrational approach -- of showing people how to actively do things. As Seaman A. Knapp once said, "What a man hears he may doubt, what he sees he may possibly doubt, but what he does himself he cannot doubt." The first county agents found that they needed cooperatives to work with if they were to achieve significant educational results. I am confident that most county agents would subscribe to this need today.

It is hard to realize how much the participation of farmers in cooperatives has given them actual business experience. Thirty or forty years ago only a handful of farmers knew anything about purchasing farm supplies or marketing farm products. They were totally dependent upon commercial handlers for supply and marketing services. Since then times have changed. Today there are perhaps 100,000 farmers who are members of boards of directors of cooperatives, and there are as many more who have been board members. These farmers know what the score is. They can read financial reports and understand the general facts of business life. Let's not forget that many of these directors are high school and college trained. It seems significant to me that many of the leaders in agriculture have had experience -- as members, directors, or officers in farmer cooperatives. This experience has trained them as farmer representatives and given them an opportunity to demonstrate ability.

Cooperatives are a great educational medium in many other ways. Take, for example, the membership meetings. These meetings teach farmers many things about their own businesses. Another educational influence is the house organs of cooperatives which carry a stream of educational information out to farmers. The total number of readers of farm cooperative periodical publications of one type or other runs into millions.

Cooperatives Strengthen Rural Communities

Rural sociologists have long maintained that cooperatives enrich the lives of people in rural communities by giving them a sense of belonging. When a farmer goes to town and sees his cooperative warehouse, gin, elevator and other facilities he enjoys a sense of ownership and community participation. Thus cooperatives break down the barriers between town and country, and make farmers proud of the communities in which they feel a partnership interest. On the basis of a recent study of 22 rural communities in Iowa, Professor Roy E. Wakeley of Iowa State College came to the conclusion that businessmen in rural communities where cooperatives are located could well take a good look at the total effect of these cooperatives on local business conditions, for he found that the communities well served by cooperatives increased the business opportunities of other forms of business enterprise.

Dr. Edwin G. Nourse once wrote that cooperatives afford farmers a means of organization ideally suited to their industry needs. By means of cooperatives farmers can keep their individuality while getting the advantages of sound business organization. Through cooperatives small farmers can get the same advantages in marketing and purchasing as large farmers. There is no other system of organization for farmers that insures this, and helps so much to preserve the family-farm type of agriculture. As Paul Armstrong, General Manager of Sunkist Growers, said recently in a talk at Claremont Men's College, "Cooperatives enable small farmers to do business in a big way."

Cooperatives as Pace-Setters in Agriculture

I believe that cooperatives can properly take credit for much of the improvement in purchasing and marketing methods in agriculture. These organizations have but one basic objective -- to serve the needs of their farmer members. The interest of their members is as farmer users of the services of the cooperative and only incidentally as stockholders. The financial interest is only incidental to the achievement of the service aim.

This kind of organization -- geared to and integrated with the needs of the farmers served -- has taken the lead in many industry improvements. I might cite here the buying of farm supplies to meet farmers' specifications, the idea of open-formula feeds, fertilizers and other supplies, bulk handling of feeds, fertilizers, dairy products, citrus fruits, and other crops. The development of meat-type hogs is another good illustration -- or the emphasis on protein in wheat or staple length in cotton.

Much of the early work in grading and packing to meet consumers' needs was done by farmer cooperatives. As Wells A. Sherman stated many years ago in his well-known book, Merchandising Fruits and Vegetables, "We may credit the cooperative movement with having reduced the number of brands which would otherwise have been on the market and with having made a few brands well known and valuable." Cooperatives were also leaders in paying farmers in accordance with the quality of their product. I could go on, but these illustrations should suffice.

Any history of the improvement in marketing and purchasing methods in American agriculture would need to recognize the major contributions of the cooperatives -- and it should be remembered that not only farmers but consumers have benefited.

It is true that not all cooperatives are pace-setters -- but it is also true that many of the pace-setting innovations in marketing farm products or purchasing farm supplies have come from them.

It should also be noted that cooperatives are pace-setters in service and in lowering marketing and purchasing costs. If standards of performance by other agencies are low, cooperatives soon fill the gap. With efficient cooperatives around, competing firms must render equivalent service at reasonable cost to survive. Even the threat of possible competition from a strong cooperative may keep up service standards for farmers.

Assistance on Problems of Agricultural Stabilization.

Mr. John Davis, Assistant Secretary of Agriculture, in a recent address, said, "Farmers and businessmen serving farmers will themselves make the decisions as to the role of government and the future. This they will do either positively by action, or negatively by inaction on their part. If they really want less government in business, then they must make such a decision through constructive teamwork and action."

Cooperative leaders know that the problems of agricultural stabilization cannot be handled by cooperatives alone -- but they know that farmers through their cooperatives can help in solving these problems. In many cases cooperatives have been able to perform many services that would otherwise have led to government programs. The farm cooperatives have insisted on the use of the self-help principle for they believe that this makes for a virile system of farming.

Preservation of our Competitive Free Enterprise System.

Probably no contribution of farm cooperatives ranks higher than the influence that cooperatives exert toward the strengthening of our competitive free enterprise system. These cooperatives give farmers a place in the competitive free enterprise system -- and farmers are proud of that place. No one respects the rights of private property more than a farmer. Ownership in farm cooperatives gives farmers a substantial stake in the business organizations that serve them. Altogether some 3,000,000 farmers have investments of about $375 each in these economic enterprises. Do farmers wish to conserve and protect these investments? Of course they do. They are as important to farmers as their investment in their farms because the cooperatives strengthen their investment in farms and equipment. We frequently hear economists maintain that people should invest in America -- that they should hold more stock in American corporations. The farmer is taking this advice to heart and because of it some 3,000,000 farmers are steadfast supporters of our free enterprise economy.

Here I would like to refer again to Paul Armstrong's recent talk in which he vigorously maintains that a bona fide farmers' marketing cooperative in its organization structure and operations is the very "antithesis of socialism." He holds that a more adequate way to describe a farm cooperative would be as an "industrial democracy."

Use in Time of War or Peace

There is one other contribution of cooperatives that I consider very important -- their use in time of war or national emergency. During World War II the government naturally turned to the cooperatives to help mobilize agriculture. A whole book could be written on how the farm cooperatives aided in the war effort -- in conserving production supplies, in rendering an efficient marketing service, etc., etc. The organization of farmers into cooperatives provides a bulwark of national defense through which agriculture can be quickly mobilized in time of great national emergency.

Let's not forget one other contribution of farmer cooperatives. They are also weapons for keeping the peace. When I heard the challenging talk last night at your banquet by Professor Martin I couldn't help thinking of what H-bomb war would do the America we love -- whether we should win -- lose -- or draw. Isn't there some other way of stopping the spread of Communism? I believe the only real answer lies in the spread of the ideals of cooperation. Experience shows that where strong cooperatives exist Communism can't get rooted. Our farmer cooperatives are living demonstrations of the vitality of our American free enterprise system -- both at home and abroad. It is significant to me that each year hundreds of students from such countries as Iran, India, Pakistan, Indonesia, Thailand, Japan and Korea are coming to this country to see how our cooperatives work and how our methods can be adapted to their countries.

The Record is Good and Promising

In this talk I have stressed the positive contributions of cooperatives. I realize that not all cooperatives are what they should be. Many are inefficient and bring little credit to the cooperative idea. However, on the whole, the record of farm cooperatives in this country is good, and I believe that it is continually getting better. While much remains to be done in improving cooperative methods of organization and operation I am confident that the progress made in the past will be continued in the future.

I am also hopeful that the opposition to cooperation, largely through ignorance of their value to agriculture and the general public, will die down as cooperatives continue to demonstrate that they -- like the farmers who comprise them -- are good citizens who pay the taxes that are properly assessed to them.

Almost fifty years ago a great Irishman -- Sir Horace Plunkett -- espoused a program for the improvement of American farm life which President Theodore Roosevelt adopted as his own. It called for better farming, better business, and better living. The key to the program was better business and Plunkett and Roosevelt both recognized that farm cooperatives were essential to a better business system for agriculture. In the intervening fifty years we have had better farming and better living on American farms, and I have no doubt that the contribution of cooperatives to the strengthening of farmers as businessmen has been at least partly responsible.

I would like to close this talk on a constructive note. Some time ago I wrote an article in which I asked the question -- "Have farmers' cooperatives a future?" This is a big subject -- but I think you know my answer -- the need and opportunity for the future of farmer cooperatives is great. The degree of achievement will depend upon the determination of farmers to see that this farm tool is properly used and safeguarded.

Let me give you the answer of a man who has been part of your cooperative movement in the Pacific Northwest for almost a third of a century -- A. C. Adams, President of the Spokane Bank for Cooperatives. "Doc" writes me on this as follows:

> "I am convinced that cooperatives can have a future and furthermore that they can stand up to their future if they keep the cardinal elements of cooperative enterprise rightly balanced, namely, mutuality of benefit, mutuality of responsibility, and mutuality of control. They will unquestionably be better able to meet their future adjustments if they can make their decisions as owners rather than as debtors pressured to meet debt payments. Such kinetic symmetry may well be the element that will enable the cooperative body to roll with the punch."

Good luck to you in achieving this "kinetic symmetry"!

PURPOSES, FUNCTIONS, AND PROBLEMS OF STATE COOPERATIVE COUNCILS IN RELATION TO COOPERATIVES 1/

By Joseph G. Knapp, Administrator
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IT IS HARD TO GET A GRIP on the subject assigned to me but I feel that it is important to do so. I understand that the makers of this sectional program felt that there is need for critical review or appraisal of how the State Councils are working.

In this brief talk I can only give some more or less personal observations but I will try to make them challenging. As you know, John Heckman is now making, at your request, a comprehensive analysis of the State Councils. When this study is completed you should have a better over-all idea of the work being done by the Councils, and ways in which their programs may be strengthened.

One thing that strikes me immediately in considering this topic is the fact that the Councils must be doing a necessary job or we wouldn't have them. Regardless of how well a Council is functioning there seems to be little disposition to discontinue one after it has been set up.

Another thing that impresses me is the diversity of ways in which the Councils function. Some are little more than conference groups--which, like the old-time militia, are set to spring into action if emergency demands. Others represent well-organized programs with considerable budgets. There is hardly such a thing as a typical State Council--any more than there is a typical state. All are distinctive and yet there is something common about all of them.

Councils Started as Agencies for Common Defense

We might say that the Councils largely got their start as agencies for common defense. In many states, the cooperatives found that they had to band together for mutual protection to insure that legislation harmful to their interest would not be enacted.

An analogy can be drawn here to our national government, for defense had to be given precedence if constructive building of the Nation was to later take place. Over many of our public buildings we see the motto, "Eternal Vigilance Is the Price of Liberty." State Councils can never be smug or complacent with regard to the enemies of cooperation.

1/ Talk given to State Cooperative Councils at American Institute of Cooperation, Ithaca, New York, August, 1954.

Cooperation must always be on the defensive--like democracy itself--for in our free enterprise society every individual, group, or organization must look out for its own interests. We must bear in mind that cooperatives represent a distinctive form of business enterprise which is not the dominant form of business enterprise in our society. Thus, it is evident that all cooperatives have one need in common--the protection of the basic cooperative practices that are essential to cooperative existence.

Defense of cooperative interests does not imply antagonism to other forms of business enterprise. The maintenance of cooperative self-respect simply calls for insistence of the right of cooperatives to be allowed to exist and develop without molestation. This thought was well expressed by Ralph H. Taylor a couple of years ago in a statement on the work of the Agricultural Council of California. He said:

> The Council has never tried to defend the business of farmer cooperatives as a religion or a way of life but has viewed them as merely another--and a generally more efficient--method for marketing farm products and purchasing production supplies, all within our existing system of free competitive enterprise. Nor has it attempted to obtain for agriculture an unwarranted advantage over other segments of our economic life, confining its activities to an elimination of special favors for all groups or, failing this, securing at least equality of advantage for all. In short, the Council has constantly striven to take its place not as a spokesman for special interest but rather as one integral part of our entire economic and social system.

Strong Offense Can Reduce Defense Needs

Here might be a good place to shift from the defense to the offense. While the early Councils were largely defensive in character they are now swinging more to the offensive, that is if we class work of an informational, educational, and relationship character as being offensive. There is still need for defensive work but a strong offensive program can reduce defense needs.

While there are many cooperatives in the various states, these cooperatives can exert little concentrated influence unless they are working together. Of course there are exceptions--in several states individual cooperatives are large and important. But, the power of all of the cooperatives in a state when applied for a common objective is generally much more significant than that of any one. While single cooperative organizations can largely look after their own special interests it takes organizations of cooperatives to look after the common interests of the group. In many states, the Councils do much to harmonize cooperative interests and represent the diversified interest of the state.

During the past year, I have attended several annual meetings of State Councils. These meetings have impressed me as being of the utmost importance since they are integrative to character. They broaden lines

of thinking and quicken the spirit of the cooperative representatives in attendance.

Take, for example, the Council meetings which I attended in Colorado last February. Here is a state which has a wide variety of cooperative organizations--some local and some regional. At this meeting some 200 cooperative delegates were there, representing cooperatives handling livestock, grain, beans, peaches, potatoes, poultry, sugar beets, mutual water companies, farm supply associations, rural electric associations, credit, and other groups. It was quite an impressive gathering for it represented a large fraction of the farmers of the state.

I was interested to see that the public agencies were well represented. Among those present were the Director of Extension, the State Commissioner of Agriculture, the State Director of Education, the Federal-State Agricultural Statistician. Also, the farm organizations were represented--the Grange, the Farmers Union, and the Farm Bureau. Here was a gathering which spoke for the cooperatives of Colorado and with a voice that could be heard. What is the value of a meeting of this kind? It simply can't be measured. All that we can say is that such meetings advance the recognition of cooperatives--and help the cooperatives meet their current problems.

I realize that the main function of the State Councils is not represented by their annual meetings. However, the importance of a fine annual meeting cannot be minimized and every effort should be made to make such gatherings outstandingly successful.

We sometimes overlook the value of the social contacts made at such meetings. Cooperation, in the last resort, is the coming together of people rather than things. At State Council meetings friendships develop on all sides. Various cooperatives see that they are all working for the same object--a better status for agriculture through the application of sound cooperative principles and practices. There is nothing like successful State Council meetings to unify and integrate the agricultural leadership of a state.

Council Has Special Public Relations Opportunities

In a talk at a pre-Institute Workshop of the State Councils Section, three years ago, John Heckman said: "The function of a State Council is simply to do the things for its members that the members cannot do for themselves." He recognized that this simple definition of functions called for tolerant interpretation. His main point was that there are many "across-the-board" activities where a State Council can represent the interest of all of the cooperatives better and at less expense than if the cooperatives were not working together. Take, for example, the areas of general cooperative education, research, and public relations. The State Council can do much in these fields that would remain undone or be done inadequately by separate cooperatives. We must remember that there are specialists in general interests as well as specialists

in limited interests. In the field of public relations, for example, there are opportunities for a State Council to assist that are not available to a single cooperative.

I will admit that it is sometimes hard to measure the dollars and cents value of a general non-business organization. How can we determine how much a church, university, chamber of commerce, parent-teachers association, or other civic organization is worth to those who are interested in such activities? About all that we can say is that such organizations are essential to the vigorous maintenance of our democratic form of society. The same is true for such organizations as State Cooperative Councils. We know that important values are received from them but such values only show up indirectly in increasingly efficient cooperative service, and in ways of a non-economic character. For one thing, unless cooperatives are joined together, how can they even determine what their common problems are so that they can take steps to meet them?

In this talk I do not wish to give the impression that all or any of the State Councils are everything that they should be. Some are well-established and have developed clearly defined and respected responsibilities and activities. Others are still trying to find themselves. In some states, the cooperatives haven't yet given the State Council the moral support and financial encouragement that is needed for its success.

Problem Is to Maintain Communication Channels

One of the problems in cooperatives is to maintain channels of communication so that cooperatives will all speak the same language. In some states, where State Councils have either not been organized or are not very effective, cooperatives have at times become engaged in bitter conflicts because the managements didn't know and respect each other. Disagreements which could have been ironed out tended to become permanent feuds. Where State Councils are working well such unfortunate situations are not likely to develop, and if they do, there is a better chance of conciliation. I recall the comment of a cooperative representative at a recent State Council meeting to the effect that he found that the other cooperatives in the state could be of great help to his own organization if they knew his problems.

I am very much interested in the study that John Heckman is making of the State Councils for I believe it will demonstrate what can be done by such groups. Each Council is an experimental laboratory and we need to know what these laboratories are accomplishing. For example, it may be that a plan for educational development by one State Council can be advantageously adopted by another. I am a great believer in the value of pooling ideas as well as commodities.

I recently received a letter from a State Council Secretary that almost shocked me. He said, "Research and Extension in the states has only

reached the co-ops sporadically for the most part. Most co-ops have a very inadequate membership communications program. Employee programs (selection, training, incentives, retirement) are almost nonexistent. Few local co-ops have an established credit policy and almost no continuous plan for inflow of capita." If my correspondent is correct, and I think he is in large areas of the country, there is a great potential opportunity for State Councils to help strengthen cooperative procedures at the grass roots. I believe that the State Councils have a significant role to play in bringing all of the assistance possible to bear on the strengthening of local cooperative practices.

Cooperatives Need Integrated Organizations Like Councils

We live in a different world from that of our fathers. The competitive pace is ever faster and we are increasingly dependent upon each other. State Cooperative Councils can help cooperatives adjust to these times. Should the machinery for better organization among cooperatives stop functioning we would quickly see how valuable these intangible activities can be. I believe that cooperatives need integrated organizations like the State Councils as a basis for developing better national integration through such organizations as the National Council of Farmer Cooperatives and the American Institute of Cooperation. Much progress has been made in harmonizing the work of the cooperatives but they have a long way to go before they maximize their usefulness.

Here I would like to pay a tribute to the educational clinics which the Councils have jointly sponsored in many states with the American Institute of Cooperation, Farmer Cooperative Service, the Banks for Cooperatives of the Farm Credit Administration, the state Extension Services, and the state departments of vocational education. Here is an activity where all available resources are brought to bear to help on common problems of cooperatives. I like to think of State Cooperative Councils as catalytic agents in that the coming together of various persons representing various cooperatives gives leadership a broader area in which to express itself. Councils have encourage "research" and education and done many things that would have been undone without them. All too frequently, good ideas are not carried into effect because there is no organization set up to receive or deal with them. I think that all of us have found that such good ideas are encouraged by the stimulating contact of other minds.

One final comment. I like to think that State Councils are doing much to develop codes of good cooperative procedure. I believe that cooperative councils have helped to raise the standards of agricultural cooperation by providing a mechanism through which weaker associations have come to emulate the methods of the best. There is nothing more powerful than a good example and the State Councils afford cooperatives an opportunity to see how other associations accomplish results.

WITH FARMER COOPERATIVE SERVICE 1/

By Joseph G. Knapp, Administrator
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As I understand this program, it is my job to try to explain how the Farmer Cooperative Service fits into the educational job of building stronger agricultural cooperative organizations in the United States. I welcome this opportunity.

To begin, I would like to point out that the Farmer Cooperative Service has a long history although we took our present name on December 4, 1953, as a result of the reorganization of the United States Department of Agriculture.

Prior to that we were known for many years as the Cooperative Research and Service Division of the Farm Credit Administration. The change last year gave us status as one of the six Services in the Federal-States Relations Group of the Department. Our sister Services are the Agricultural Research Service, the Federal Extension Service, the Forest Service, the Soil Conservation Service, and the Agricultural Conservation Program Service. We now report to the Secretary of Agriculture through Assistant Secretary J. Earl Coke.

I believe that this change in name and place in the structure of the Department of Agriculture is highly significant. It recognizes, as Secretary Benson has said, the more extensive and complex problems of farmers today, upon which they need assistance.

We are now in position to work freely with all other parts of the Department of Agriculture in carrying out the provisions of the Cooperative Marketing Act of 1926, which recognized that it was a responsibility of Government to "render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities."

This was a broad mandate which was not given without careful consideration in both houses of Congress.

Under the Act of 1926, the U. S. Department of Agriculture, through the Farmer Cooperative Service, is authorized:

"1. - To acquire, analyze, and disseminate economic, statistical, and historical information, regarding the progress, organization and business methods of cooperative associations in the United States and foreign countries.

1/ Presented at American Institute of Cooperation, Ithaca, N. Y., August 19, 1954.

"2. - To conduct studies of the economic, legal, financial, social, and other phases of cooperation, and publish the results thereof. Such studies shall include the analyses of the organization, operation, financial and merchandising problems of cooperative associations.

"3. - To make surveys and analyses if deemed advisable of the accounts and business practices of representative cooperative associations upon their request; to report to the association so surveyed the results thereof; and with the consent of the association so surveyed to publish summaries of the results of such surveys, together with similar facts, for the guidance of cooperative associations and for the purpose of assisting cooperative associations and developing methods of business and market analysis.

"4. - To confer and advise with committees or groups of producers, if deemed advisable, that may be desirous of forming a cooperative association and to make an economic survey and analysis of the facts surrounding the production and marketing of the agricultural product or products which the association, if formed, would handle or market.

"5. - To acquire from all available sources information concerning crop prospects, supply, demand, current receipts, exports, imports, and prices of the agricultural products handled or marketed by cooperative associations, and to employ qualified commodity marketing specialists to summarize and analyze this information and disseminate the same among cooperative associations and others.

"6. - To promote the knowledge of cooperative principles and practices and to cooperate, in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others.

"7. - To make such special studies, in the United States and foreign countries, and to acquire and disseminate such information and findings as may be useful in the development and practice of cooperation."

Thus, you see, the Farmer Cooperative Service is given broad authorization to assist farmers on their cooperative problems. In the 28 years since July 2, 1926, when the Act became law, the Farmer Cooperative Service, or its prototype forms, has conscientiously endeavored to carry out its responsibilities under the Act.

When this Act was passed there were those who complained that it was a milk and water measure that did not greatly change the work which had long been performed within the Department of Agriculture. This objection was answered by one of the sponsors of the Act, Congressman Haugen, who declared in the debate on the measure that "Cooperative marketing has come to stay." In reporting the bill to the whole House the Committee on Agriculture stated:

"It is the purpose of the bill to enlarge the activities of the department so that they may keep pace with the growth and development of the cooperative movement. It is intended that this bill, if enacted, will enable the department to do for the marketing of agricultural products, through cooperative associations, work of a character analogous to that which it has always done in regard to production. ... The bill does not provide for Government control or supervision, nor for the subsidizing of the cooperatives. This bill proposes to enable the Department of Agriculture to greatly increase the service which it renders cooperatives. It is contemplated that this would be done principally through research work covering the various business problems with which cooperatives are confronted and in regard to other phases of cooperative activity. The educational work contemplated would be analogous to the work which the department has done and is doing in regard to the production of agricultural products."

It is interesting to recall that this Act of 1926 was "drawn," to quote from the House Committee Report, "by the Secretary of Agriculture, after conferring with a large number of cooperative leaders and cooperative associations throughout the United States with respect to how the Department of Agriculture might wisely and constructively extend the work of the department with regard to the cooperative movement."

The Cooperative Marketing Act of 1926 was so wisely and carefully drafted that it fully covers the research, service and educational needs of farmers on their cooperative problems today, and in effect describes the present area of work of the Farmer Cooperative Service. The Act established the principle that it is a proper function of the Federal Government to assist farmers in their efforts to help themselves.

It was the idea of the sponsors of the Act of 1926 that the Division of Cooperative Marketing set up by the Act -- which has now become the Farmer Cooperative Service -- would serve as a medium through which all of the services of the department in research and education could be effectively applied to the sound development of agricultural cooperative organizations.

This object has become fact with the establishment of the Farmer Cooperative Service which has become the clearing house within the department for all matters relating to agricultural cooperation. It maintains the national cooperative statistics, and confers with other departmental agencies on matters relating to the work of the cooperatives. The Farmer Cooperative Service recognizes that it is but one agency working with cooperatives. It therefore cooperates closely with these other agencies to the extent possible in order to increase the scope and effectiveness of its service at a minimum of cost. Many of its research projects are carried on jointly with the State Experiment Stations or other agencies in the Department of Agriculture.

It carries on a continuing program of cooperative educational work with the agricultural colleges, the Federal and State agricultural extension services, the Federal and State departments of vocational education, the State departments of agriculture, banks for cooperatives, State cooperative councils and, of course, the American Institute of Cooperation.

In the educational field the Service issues annually many bulletins and circulars as an outgrowth of its research studies on specific and general matters relating to agricultural cooperation. Many of these are used as text book material in college and vocational agriculture high school classes, or in educational programs of the cooperatives. We have also issued a special group of educational publications in our "E" Series which are prepared especially for high school classes and other youth and non-technical groups. Among the series are a number of team demonstrations and illustrated lectures on cooperative subjects. We endeavor to keep them up-to-date by frequent revisions.

One of our most valuable educational channels is our monthly magazine, the News for Farmer Cooperatives, which contains reports on current research and articles of general interest designed to improve the efficiency of cooperative performance. Although the circulation of this publication is largely limited to farm cooperative organizations and Federal and State workers in agricultural cooperation, it has a much wider audience through the reprinting of many of its articles by cooperative house organs and other agricultural publications.

The work of the Farmer Cooperative Service can be summed up in the three words -- Research, Service and Education. However, these functions are all interrelated. Research is essential to effective service and educational work, and what good would research be if it were not made effective by service and educational techniques. We may thus conclude that the object of the Farmer Cooperative Service is Service on the cooperative problems of farmers, in the broadest sense of this word, which recognizes that a service which increases the economic and social position of farmers must also be in the national interest.

HELPING BUILD BETTER DAIRY COOPERATIVES[1]

By Joseph G. Knapp, Administrator,
Farmer Cooperative Service,
U. S. Department of Agriculture

I am very glad to have this opportunity to talk to you today on how the Farmer Cooperative Service helps build better dairy cooperatives.

Since the work now carried on by the Farmer Cooperative Service was authorized by the Cooperative Marketing Act in 1926 we have been working closely with the National Milk Producers Federation in helping build better dairy cooperatives.

At various times during these many years you have known us under different names -- the last being the Cooperative Research and Service Division of the Farm Credit Administration -- but we are in effect the same organization working under the same basic Congressional authorization. We like our present name, given us in the reorganization of the U. S. Department of Agriculture last year -- the Farmer Cooperative Service -- for this name indicates and implies that we are a service agency to assist farmers on their cooperative problems through research, advisory and educational techniques.

I am going to use our present name during this talk when I refer to past work done by us under different names for I wish to emphasize that for 28 years we have been working without interruption to help build better farmer cooperatives in the United States. We are like a widow who married again and thus obtained a new name. We are the same old girl.

It has always meant a good deal to me that the National Milk Producers Federation took an active interest in the creation of the Division which has now become the Farmer Cooperative Service.

At your 9th Anniversary Meeting in Philadelphia, November 25, 1925, you passed a resolution which declared:

> "We favor ... sympathetic assistance, through educational work by the U. S. Department of Agriculture and we favor the creation in that Department by Congressional action of a cooperative marketing division."

Your Secretary at that time -- a man who has perhaps contributed as much to the cooperative organization of American farmers as any other -- Charles W. Holman, took a leading part in the work of the committee that

[1]Annual Meeting of National Milk Producers Federation, Statler Hotel, Washington, D. C., November 10, 1954.

was called together by the Secretary of Agriculture to help in drafting the bill which was to become the Cooperative Marketing Act of 1926. Mr. Holman also testified at length before the Senate Agricultural Committee in support of the proposed legislation. In this testimony he said:

> "From the viewpoint of our people ... we wish to see a permanent policy established in the Department ... so that ... this work can go on for the benefit of that part of the agricultural public who wish to market their products in a cooperative way and to use the cooperative principle in other forms of business."

Mr. Holman thus made it clear that your organization favored the sound development of agricultural cooperation as a whole as well as the advancement of cooperative marketing.

The Cooperative Marketing Act which was subsequently enacted with little opposition either in the House or the Senate was a significant piece of legislation in that it was designed primarily to provide research and educational assistance to farmers on their cooperative problems.

It should be noted that in the initial development of the bill there were some who felt that the legislation should impose limitations on the field of action of cooperatives by requiring them to obtain licenses. This idea was vigorously and successfully opposed by the Federation and other cooperative organizations on the grounds that there was no reason for subjecting cooperatives to restrictions on their freedom of action while other parts of the free enterprise system enjoyed immunity from such restrictions.

The cooperative advocates and supporters of the cooperative marketing bill were concerned only with one thing -- obtaining from the U. S. Department of Agriculture research, educational and service assistance for farmers on their cooperative marketing and purchasing problems such as was already obtainable by farmers on their problems in production.

This view was recognized by Gilbert Haugen, then the Chairman of the House Committee on Agriculture, who, in reporting the bill, said:

> "It is the purpose of the Bill to enlarge the activities of the Department so that they may keep pace with the growth and development of the cooperative movement. It is intended that this Bill if enacted will enable the Department to do for the marketing of agricultural products through cooperative associations - work of a character and analogous to that which it has always done for production. <u>The Bill does not provide for Government control or supervision nor for the subsidizing of the cooperatives.</u> [My emphasis] This Bill proposes to enable the Department of Agriculture to greatly increase the service which it renders cooperatives."

The Cooperative Marketing Act was a significant piece of legislation in one other respect. It has stood the test of time. It was drawn with such broad provisions that it has needed no subsequent revision in the light of the tremendous changes in agriculture and the economy which have come since 1926. This Act simply accepted cooperatives as an essential form of business organization for agriculture and set forth a set of guiding rules on how the Government could properly render assistance to farmers in building efficient cooperatives. Let me read a paragraph from this Act to show its spirit and content:

> "The Division [now named the Farmer Cooperative Service] shall render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities."

You can see from this broad authorization that our work was not restricted to cooperative marketing although the Act setting up our Service was named the Cooperative Marketing Act. Under the Act the Division [the Farmer Cooperative Service] is authorized among other things:

> "To acquire, analyze, and disseminate economic, statistical, and historical information regarding the progress, organization, and business methods of cooperative associations in the United States and foreign countries.
>
> "To conduct studies of the economic, legal, financial, social, and other phases of cooperation, and publish the results thereof. Such studies shall include the analyses of the organization, operation, financial, and merchandising problems of cooperative associations.
>
> "To make surveys and analyses if deemed advisable of the accounts and business practices of representative cooperative associations upon their request; to report to the association so surveyed the results thereof; and with the consent of the association so surveyed to publish summaries of the results of such surveys, together with similar facts, for the guidance of cooperative associations and for the purpose of assisting cooperative associations and developing methods of business and market analysis.
>
> "To confer and advise with committees or groups of producers, if deemed advisable, that may be desirous of forming a cooperative association and to make an economic survey and analysis of the facts surrounding the production and marketing of the agricultural product or products which the association, if formed, would handle or market.
>
> "To promote the knowledge of cooperative principles and practices and to cooperate, in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others.

"To make such special studies, in the United States and foreign countries, and to acquire and disseminate such information and findings as may be useful in the development and practice of cooperation."

I have spent some time in explaining the basis on which the work of our Service is set up because I believe it is important for farmers and others to know the authority under which we operate.

The recent establishment of our work as the Farmer Cooperative Service has not in any way changed the basic character of our activities although the new form of organization, which better integrates our program into the set-up of the Department, also provides many administrative advantages. The need for Departmental assistance to cooperating farmers has been recognized by Secretary Benson as well as by his predecessors. As he said in a statement in the January 1954 issue of the News for Farmer Cooperatives:

"The climate in which farmer cooperatives now operate is very different from what it was 75 or even 25 years ago. The problems are more extensive and complex. The services farmers need are more numerous. ... The Department has responded to these needs by establishing a new agency, Farmer Cooperative Service."

Why should dairy cooperatives be encouraged as a matter of public policy? What is the justification for the work of the Farmer Cooperative Service in trying to help build better cooperatives? This is a question which I am frequently asked to answer.

My reply is that these organizations contribute to the kind of America that we wish to preserve and strengthen -- where individual farmers have dignity and a fair measure of prosperity. Is this too much to ask for? Would the dairy industry be as healthy as it is today if there were no strong dairy cooperatives looking out for and serving the interests of dairy farmers?

The facts prove that dairy cooperatives contribute to the national welfare in many ways -- some of which I will enumerate:

1. They help to maintain the free competitive market system by providing a form of healthy competition in it.

2. They help provide farmers with stable market outlets. The dairy cooperatives spend millions of dollars annually in advertising dairy products and many assure their members of a market for their milk at all times.

3. They help stabilize the production of dairy products through various kinds of seasonal pricing programs.

4. They provide a safety-valve for farmers during periods of economic distress, for they give farmers organizations to work through.

5. They assume responsibilities in industry self-government which reduces the need for governmental regulation or operation in the milk industry, and,

6. They provide a source of readily available information for research studies -- as their records are generally accessible and open to properly qualified people.

I would like to make one other point here. While the Farmer Cooperative Service is set up primarily for the purpose of assisting farmers with their cooperative problems, the benefits resulting from its research, service and educational activities are shared with other interested groups in the agricultural industry and with the public generally.

In 1927-28, the year after the work of the Farmer Cooperative Service was started, the dairy cooperatives of the nation were doing a total volume of business, according to our records, of $620 million. Our latest statistics for 1952-53 indicate that they are now doing a total volume of over $2.5 billion. With the growth in volume there has been a decline in the number of associations from 2,479 in 1927-28 to 1,917 in 1952-53, although the number of dairy farmers who are members of such associations has increased during these years from 600,000 to 812,000. Thus, 23 percent fewer associations are serving 35 percent more members and doing four times as much in dollar volume.

In general, the dairy cooperatives today are much stronger organizations than they were in 1926. Many small associations, mainly cheese plants or creameries have been closed or consolidated, while other types of milk-processing associations have expanded.

The combined volume of the two largest organizations -- the Dairymen's League Cooperative Association, Inc., New York City, and the Land O'Lakes Creameries, Inc., Minneapolis -- has grown from a little over $100 million in 1926 to a little less than $300 million in 1953, which, in fact, is not a large increase in terms of 1926 dollars.

As compared with the two largest "proprietary" firms in this field, the growth has been very modest, for these two firms increased combined total sales volume from about $260 million in 1926 to over $2 billion in 1953. Part of this volume in 1953 for both types of organization represents non-dairy sales. Dairy sales alone in 1953 for the two cooperatives totaled about $265 million, while they totaled about $1.5 billion for the two general corporations.

Information is not available on the total assets and net worth of dairy cooperatives for 1926. However, in 1950 the net worth in all dairy cooperatives amounted to $210 million, and it is considerably more today. The combined net worth of the two largest cooperatives is now a

little over $40 million, while the net worth of the two largest "non-cooperative" firms totals over $400 million. Thus, while the cooperatives have grown appreciably since 1926, they have lagged far behind other large firms in this field.

Let's look back at your Federation as it was in 1925. Your membership then comprised 28 regional cooperatives representing 300,000 farm families. Of this group 25 were fluid milk and cream organizations, mostly interstate in character. Today your membership exceeds 100 associations and represents 450,000 farm families, or about one out of every two with dairy farms in the United States.

Back in 1925 the membership was located in the so-called Dairy Belt, bordered on the South by the Ohio River and extending West to cover Iowa and Minnesota. Then it jumped to the Pacific Coast. Now dairy production is almost co-extensive with the nation, and over one-fourth of your member associations are below the Mason-Dixon Line.

The National Milk Producers Federation has truly become a national organization in the past thirty years. I mention this fact to emphasize the great change which has occurred in the scope of your interests since the work now performed by the Farmer Cooperative Service was established by the Cooperative Marketing Act of 1926. We are proud of the fine relationship that we have enjoyed with the Federation and its member associations during this period, and we are now cooperating actively with your Secretary, E. M. Norton, in working on several problems.

Before describing our work specifically with dairy cooperatives I would like to point out that our general program for all types of cooperatives is beneficial also to dairy associations. Many of our studies of other types of cooperatives give us information that we can use in aiding dairy associations. Cooperatives of any one type cannot be placed in tight compartments. Progress of dairy cooperatives depends upon progress being made by all other associations and of course all other cooperatives benefit as dairy groups progress.

While we have a special Dairy Branch in our Service working with dairy farmers on their cooperative problems, much of the work of our other branches is designed to help dairy farmers with their problems. For example, our Transportation Branch assists dairy cooperatives, along with other cooperatives, on special transportation studies. Our Farm Supplies Branch helps on special problems of dairy cooperatives in the procurement of supplies. Incidentally, our records in the Farmer Cooperative Service indicate that dairy cooperatives distributed supplies with a value of $74 million in 1952-53.

Our Membership Relations Branch works with all cooperatives, dairy and others, to assist them in increasing membership vitality and democratic control. Our Business Administration Branch helps all types of associations, dairy cooperatives included, on special problems of management, accounting, financing and taxation. Our History and Statistics Branch develops the national statistics of agricultural cooperation which

provide information required by cooperatives, research workers and the public on the direction cooperatives are moving.

I could go on but my point here is that all parts of our Service are working to help build better dairy cooperatives, for work which helps any kind of cooperative to do a better job brings respect for the cooperative form of business by helping build better cooperatives in general.

Now let me refer to our work specifically with dairy cooperatives. I wonder how many of you have any idea of the tremendous amount of work we have done in this field since 1926. Before coming over I checked up and found that we have assisted over 500 dairy cooperatives on specific problems in these 28 years and issued some 50 formal publications as a result of our research studies.

A review of the work of the Farmer Cooperative Service and its predecessor agencies since 1926 indicates how the problems of dairy cooperatives have changed. In the late twenties when new organizations were being developed, and others improved, our studies were directed toward building economically sound cooperative organizations. Many of you will recall the comprehensive bulletin which we issued in 1930 on the "Cooperative Marketing of Fluid Milk."

During the early thirties when the work now performed by the Farmer Cooperative Service was handled through the Farm Board, members of dairy marketing cooperatives were confronted by terrific declines in the prices of their products, and emphasis was placed on building strong regional and national organizations. We issued a bulletin at that time designed to serve as a guide for organizing dairy cooperative marketing associations on a businesslike basis, although most of our work with the Farm Board related to servicing loans.

In 1933, when the Farm Credit Administration was organized, our work was set-up in it as a research and service unit. In the middle and late thirties we issued a number of bulletins and circulars on current problems facing dairy cooperatives. Some of these were reports on case studies of particular organizations or problems of organizations such as a study of the transportation of milk in the Philadelphia milkshed or of cooperative milk marketing in Louisville. Others were more general economic analyses such as studies of "The Surplus Problem in the Northeastern Milkshed," "Relative Prices to Producers under Selected Types of Milk Pools," "Cooperative Creamery Accounting," "An Economic Analysis of Bargaining Problems of Milk Cooperatives," and a study of "Base Allotment or Quota Plans."

During the war period our staff working on problems of dairy cooperatives was reduced to one or two men, and their major work was in helping dairy cooperatives do the best possible job in the war effort. Few basic studies were conducted during this period -- but full use was made of previous studies to give service and advisory assistance to producers and their cooperatives. The reports of the Service during this period

were designed to help on immediate problems. Typical was a report on "Milk Product Record Forms for Cooperative Distributors." Another dealt with "Cooperative Reorganization of Milk and Cream Hauling."

With the termination of the war, dairy cooperatives found themselves with many adjustment problems -- and our studies reflect an effort to help cooperatives meet them. During recent years we have published the result of studies on formula pricing of milk for fluid use, analyses of base-surplus plans for specific milksheds, an economic analysis of dairy cooperatives in Georgia, farm-to-plant milk hauling practices of dairy cooperatives, dairy breeding cooperatives, and on the trend toward large-scale plants in the dairy industry.

I would now like to tell you something of our work underway with dairy cooperatives. Our staff in the Dairy Branch at present consists of three workers of professional grade under the supervision of Donald E. Hirsch, whom many of you know. These men perform related research, service and educational activities. I say that these three functions are related, for research is the foundation for effective service and educational work. Without research work to get the facts, service work would be stale and educational activity uninformed. Without service and educational work we couldn't put the information developed from research studies to practical use. Not only that, but the type of demands that we get for service work helps us plan our research efforts so that we will be working on the right problems.

At the present time we are working in three major research areas which I would like to mention briefly.

The first has to do with milk pricing, a topic which has long been a Number One problem of dairy cooperatives, but it is especially important in a time of declining prices such as you have been experiencing. From our study we will soon release a thorough analysis of the use classification plan for pricing milk. Our report will serve as a guide to cooperative managements who are trying to establish or improve classified pricing plans. Our Dairy Branch is already at work on another study relating to pricing of real interest to many of you. It is concerned with types of educational work leading to the adoption and successful operation of price plans that reduce seasonality of production.

The second major research problem of our Dairy Branch relates to butterfat sampling and testing procedures. Payment for the solids in milk becomes increasingly important as milk price levels decline. It is essential that bargaining cooperatives employ the most efficient check-testing methods possible in serving their members. Similarly, members of milk-handling cooperatives seek equitable distribution of proceeds according to the market value of their milk. To assist both kinds of associations, our Dairy Branch has engaged in an intensive study of the techniques in butterfat sampling and testing as those are influenced by economic factors. One phase of this study deals with receipts of milk in cans while a second phase involves sampling procedures in bulk tanks on farms. Reports on the findings of these two phases of the study will soon be available to you.

A third problem that our Dairy Branch has been working on relates to bulk procurement of milk. The tank system for farm-to-plant milk handling is, of course, one of the most challenging new developments in the dairy industry. At the present time sufficient and reliable information is not available in published form to assist managements of cooperatives in determining whether they should convert their procurement routes so as to adopt this method.

Our Dairy Branch recently completed field work under a detailed cost and time data study in cooperation with two Midwestern cooperatives to provide this essential information, and the findings from this work will be available within a few months.

We also have at the Government Printing Office a report on the general progress throughout the nation in farm-to-plant milk handling. This provides information on the extent, location, and practices of dairy firms -- cooperatives and others -- engaged in milk hauling.

We have other work along this line planned for next year -- possibly a study of the effect of bulk pickup on receiving room costs and efficiency. I would like also to here mention a bulletin we issued two years ago dealing with recent changes in methods of assembling milk in cans. This study serves as a bench-mark for evaluating new procedures and developments such as bulk tank pickup.

In addition to these three fields of research our Dairy Branch is currently working on several other important problems. For example, a problem which I know is of interest to you relates to developing a nation-wide dairy cooperative merchandising program. This is an old problem given new emphasis by the great changes in marketing conditions and methods which have come to dominate the dairy industry in recent years. I say it is an old problem, for back in 1932, C. E. Hough at the American Institute of Cooperation said after reviewing the progress of mergers in the dairy industry:

> "Milk producers of the United States must come to realize that if they hope to get the full value afforded by the market for their milk, whether it be used as fluid milk, cream, cheese, butter or other milk products, this cannot be accomplished by acting as disorganized individuals or groups."

Even further back, in 1928, John Brandt addressed your Annual Meeting on the subject: "How Dairy Cooperatives May Make Joint Use of Common Sales Agencies for the Marketing of By-products." The idea of cooperatives working together is an old one in the life of your federation. The only thing added today is a greater realization of the extent of cooperation between cooperatives that will be required if an effective merchandising program is to be carried on.

Now I would like to comment briefly on our service program with dairy cooperatives. I wonder how many of you fully recognize its scope and significance. The large number of requests we receive for help on

problems of various kinds shows the need for the service we are trying to provide. When you have a problem you let us know and we try to help -- but do you realize that many other dairy cooperatives are also having problems and letting us know? Sometimes our limited manpower restricts our ability to serve as and when we should like, but Mr. Hirsch and his staff are doing their very best in this regard.

The problems calling for service are of various types. Frequently we get requests for help that can be handled by letters or by sending bulletins or reports we have issued dealing with the problem. Frequently the response to a letter requires statistical tabulation or analysis which may require several days of staff time. In many cases we get requests -- some of them come in to us by long-distance telephone or wire -- in which a qualified man is needed immediately to help on an urgent problem. Frequently it takes a week or more to study the problem in the field, gather essential data, and prepare a report for the assistance of the directors and manager of the association or associations interested.

Fortunately the studies that we make for one cooperative can frequently be used to help others on a similar problem. A doctor's ability to serve his patients depends upon his experience in treating a lot of patients. No patient would want a doctor who was experimenting on him for the first time.

The following list will give you some idea of the variety of these service jobs last year. We helped a group of Georgia dairy cooperatives by making a study of milk distribution costs. Later we helped one of these associations in developing an employee relations program, and another by studying its problems and opportunities. Working with the Wisconsin College of Agriculture we analyzed the organization and operating problems of the Pure Milk Products Cooperative, Chicago.

In Kansas, in cooperation with the Kansas State College and the Wichita Bank for Cooperatives we made a study of the problems in organizing a milk distributing cooperative. In North Dakota we analyzed the dairy marketing problems of cooperatives seeking to shift to the handling of whole milk. We also summarized facility needs and operating policies of the Union Dairy Farmers' Cooperative at Pittsburgh.

Nearer home, we appraised the advantages of purchasing a milk distributing business by the Maryland-Virginia Milk Producers Association. Last month we made a study of the operating opportunities and problems of a new dairy cooperative in the Columbia Basin in Washington State.

In addition to jobs of this type, the staff gives much assistance by letter or interview. An association may be looking for a manager, a manager may want to know where he can get ideas for a building, a domestic or foreign student may wish to contact a few leading dairy cooperatives in California or in some other States, etc, etc.

One of our great problems is to meet the many calls that we get for service -- all of them of great importance to the organizations involved -- without impairing the basic research work we must do in order to provide effective service assistance. Our desire to help is unlimited but our staff is small and we must use it to the greatest advantage for the good of all.

Frequently we are able to do these jobs in relation to research assignments so as to conserve personal time and travel cost. However, in some cases we place a man on a job within a few days -- even at the expense of other important work.

In a way, our service work is also research in character. Frequently, after we have worked with a number of associations on the same type of problem we analyze the results of this experience and issue a report which can be used by other associations when they have a like problem.

One other thing I would like to say about our service work. Much of it is carried on in cooperation with State Extension workers, State departments of agriculture, the Banks for Cooperatives, and similar agencies. Our experience in working with dairy cooperatives throughout the nation enables us to frequently bring to bear experience from outside areas of great value in the solution of a problem.

Thus, we believe that our service work is of major significance, for it is here that we can put to use our cumulative experience and research findings.

Our educational work with dairy cooperatives is fully as important as our research and service work. In fact, we carry on educational work in the process of making research studies or in rendering service assistance on particular problems. Our dairy bulletins, circulars and reports are widely used for instructive purposes in the agricultural colleges, vocational schools and in membership educational work by cooperatives.

But we also do more along this line. Members of our Dairy Branch staff frequently present talks of an educational character at such gatherings as the American Institute of Cooperation, to cooperative clinics of various types, and at annual meetings of cooperatives. They also contribute articles to our educational publication -- The News for Farmer Cooperatives -- as well as to house organs of cooperatives and dairy industry journals.

Perhaps this talk may convince you that the members of our Dairy Branch are about as busy as the proverbial one-armed paperhanger bothered by flies. I believe this is an understatement.

The problem of building better cooperatives is like the problem of building better citizens. It is not a job that can be done once and

for all. You have to keep on building. Times change, conditions change. Cooperatives have to adapt themselves and grow with the times. There is as much difference in a modern cooperative today and one back in 1926 as there is between the famous Model T which was prominent at that same time and its modern counterpart which is admitted by all to be far from being a "tin lizzie."

In closing, let's look a little into the future. Will we ever get all of our jobs done? I think the answer is - no - or at least - not soon. There are many problems ahead for dairy cooperatives if they are to serve the dairy farmer and the nation efficiently. Many of these problems haven't even shown up yet.

We in the Farmer Cooperative Service hope to be "in there pitching" with you on these problems as they arise.

BUSINESS ADMINISTRATION FOR FARMER COOPERATIVE ASSOCIATIONS

By Joseph G. Knapp, Administrator,
Farmer Cooperative Service,
U. S. Department of Agriculture*

Business administration is just as important for a farmer cooperative association as for any other form of business enterprise. Every business institution, whether private, public, or cooperative, must be administered or controlled. No business runs itself -- at least for long.

Let us consider briefly the meaning of the term, business administration. I like the following definition from the Encyclopedia of Social Sciences: "Business administration may be defined as the science and art of conducting an enterprise with a maximum of efficiency and a minimum of cost." Business administration under this definition is not the same thing as "business management," which term conveys the idea of technical execution of business policies. "Business administration," in contrast, implies control and direction over the whole enterprise.

I. Business Administration for Cooperatives Based on Democratic Control

Before going further, let us consider how the business administration for a cooperative association generally differs from the business administration of other forms of business organization.

The business administration of a private concern is vested in those who contribute ownership capital for carrying on the enterprise. In the simplest form of private business, the owner personally operates, or manages, the business. Next there is the form of private business where the owner employs a manager to operate the business. Here we have management separated from administration, for the owner can discharge the manager if he is dissatisfied with the way in which the business is being conducted. In the partnership form of business enterprise, the partners may own and manage the business or they may delegate the management to a hired manager.

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*This talk was originally prepared in 1937 for use in a cooperative training course given by the Indiana Farm Bureau Cooperative Association. It is reissued with little change (1955).

In the case of a business corporation, the ultimate control or administration of the business legally resides in the stockholders in proportion to their evidence of ownership in the form of shares of common stock. The administrative power of each individual stockholder, therefore, depends upon the amount of his ownership in the corporation as evidenced by his holdings in common stock, since each share of common stock customarily gives its holder one vote in the affairs of the corporation. In actual practice, however, the stockholders of a commercial corporation do not fully use their legal power in exerting a control over the affairs of the corporation.

The average stockholder does not have, nor does he often require, a direct knowledge of the way in which the corporation is being administered. He is primarily interested in the corporation from the standpoint of the profitability of his stock investment. A stockholder generally takes only an apathetic interest in the control of the corporation unless he owns a block of stock, which assures a considerable control in the operation of the corporation. The control vested in the amount of stock held by the average stockholder is generally negligible compared to the amount of stock outstanding. If the common stockholder is not satisfied with the rate of return which he is securing on his stock investment, he generally sells the stock rather than endeavor to bring about a change in the operation of the business. Since the average individual stockholder generally surrenders voluntarily any power that he might have to control the business policies of the corporation, the control passes to those stockholders who own significant amounts of the corporation's stock, or to those who secure the proxy of individual stockholders who may be willing to allow someone else to use their increment of control power. This group of influential stockholders, or proxy holders, establish the general corporate policies and elect the board of directors, which, in turn, appoints the corporate officers. Since the affairs of a corporation require constant attention, the corporate officers are generally given a free hand to execute the general policies of the corporation. 1/

1/ The degree to which the control of modern corporation has become separated from ownership of common stock is discussed by Adolf A. Berle and Gardiner C. Means in their comprehensive study, "The Modern Corporation and Private Property." These authors show that individual stockholders tend to have very little influence in the control of large corporations.

From the standpoint of ultimate administrative control, there is a major difference between such business corporations and incorporated cooperative associations. In the business corporation the control is legally vested in the individual stockholders in proportion to their ownership of shares of stock; or in other words, such corporations are operated primarily in the interest of capital. In the usual cooperative form of corporation the control is equally vested in the individual stockholder members by a provision in the articles of incorporation or bylaws which gives each member an equal voting right regardless of the amount of stock held. 2/ This provision has been incorporated generally in the legal structure of cooperative associations for the purpose of safeguarding democratic control because it is presumed that those who organize cooperative associations are concerned with building an institution to serve themselves. The major interest that a member has in a cooperative purchasing or marketing association is the service that he may secure from it. It should not be forgotten that the member is a patron or customer first, last, and all the time. His ownership interest as an investor is relatively of minor importance compared to his interest as a patron or customer, since he shares in savings in proportion to his business with the association rather than in proportion to his control of stock. A stockholder of a private corporation, on the other hand, is primarily interested in getting a return on his invested capital since he generally has little, if any, interest in the corporation as a patron or customer.

The major difference between the cooperative form of organization and other forms of organization, from the standpoint of business administration, can thus be summarized in the following words. In the case of a private business, the ones in ultimate charge are the owners, while in the case of a typical cooperative concern each individual member is accorded an equal opportunity to exert control, regardless of ownership interest. The control of a cooperative is thus democratic in the same way that the government of the United States is democratic, for in both the vote of each individual does not depend upon the extent of property interest.

2/ Democratic control is generally further insured by limitations on the amount of stock which can be held by any one individual. Some associations also require members to furnish capital for financing their association in proportion to the use made of the association. Some cooperatives go so far as to divorce ownership from control by placing control entirely in the hands of the members, irrespective of capital contribution. Such associations, which may be incorporated, are generally called "membership associations," to distinguish them from "capital stock associations." In such associations membership is generally evidenced by the issuance of membership certificates in lieu of shares of stock.

II. Administrative Responsibilities of Members

The preceding discussion shows that the cooperative form of incorporated organization is designed to keep ultimate administrative control in the hands of members, who, as customers, are directly interested in the services provided by their association. The special form of a cooperative organization thus places a great administrative responsibility on members that cannot be shifted. Let us consider in some detail the nature of this responsibility.

1. In the first place, the members of a cooperative association are personally responsible for attending all membership meetings which afford them an opportunity to exert their influence in directing the affairs of their association either by electing directors, by passing resolutions, or by any other method. If members do not attend and participate in meetings there is the danger that a small clique may get control to the detriment of the members' interest. Attendance at meetings is furthermore of great importance in enabling members to better understand the goals and accomplishments of their association.

2. A great membership responsibility is involved in the selection of a competent board of directors. This is a continuous responsibility, for directors are elected periodically. The selection of a competent board of directors is a matter worth serious consideration, for an incompetent board can ruin an association. For that reason every board member must be selected on the basis of the best judgment of the member as to the ability of the director to further the purposes of the association. This means that the director selected must be intelligent, cooperatively minded, and capable. It means, furthermore, that every director must be selected on the basis of his competency for the position of director rather than on the basis of his affability or the fact that he is a neighbor. It also means that the director must be independent in his thinking, but able to work with others, not just a rubber stamp for the manager or for some other director. There is no need of listing further qualifications of a good director. The important thing is to get members to realize that they are responsible for the type of directors elected. A board of competent directors is generally a compliment to the alertness of the membership. Furthermore, I should like to call attention to the danger of re-electing, year after year, the same directors. This policy tends to fossilize an association. It is highly desirable to have "new blood" constantly coming into the board of directors. It is also desirable to have members who have had experience as directors, for members who have had such experience are better qualified to exert their authority as members, since they have an intimate knowledge of the operating methods of the association.

3. The members of a cooperative association are responsible for keeping themselves informed on the operating methods and efficiency of the association. They should always remember that the board of directors acts as their agent and they should expect a full account of their stewardship. They should see to it that their agent does not abuse the power delegated to it. I do not wish to convey the impression that the members should feel that they must keep informed on all of the detailed operations of the association. Such attention is properly delegated to the board of directors. The members should, however, keep informed on the general conduct of their association. They should insist that the board of directors provide them with adequate information for this purpose. If there is any one thing that has been learned by successful cooperative associations, it is the importance of a well-informed and enlightened membership.

4. The members are responsible for forwarding in every way possible the success of an association. The term, "cooperative association," implies that every member has a moral responsibility to further its objectives. This means that a member should not permit himself to look upon the association as something apart from himself. It is his association and he should loyally support it. The most important support that he can give is his patronage, for an association cannot be expected to function efficiently without a substantial volume of business, which gives the advantages of quantity handling, and reduces expenses per dollar of sales. The patronage of members may, therefore, be looked upon as the very backbone of an association. For this reason, each member should not only feel responsible for patronizing his association, but he should feel responsible for encouraging others to patronize it. There are also many other ways in which a member can give his support. For example, members can bring problems and complaints to the attention of directors so that action can be taken to make the association give more complete satisfaction.

III. Administrative Responsibilities of Board of Directors

While the ultimate control of a cooperative association is vested in the membership, the direct administrative control is delegated by the members to the board of directors. It is the duty of the board of directors, and therefore the duty of each director, to see that the association functions on an efficient basis. Let us now consider in some detail the nature of this responsibility.

1. In the first place, the board of directors is responsible for accomplishing the ends set forth by the membership in the articles of incorporation, bylaws, and resolutions. For example, it is the duty of the board of directors to determine rules of action, subject to the general review of the members, on such matters as the following: Methods of financing, methods of distributing net savings, credit extension and collection, creation of reserve funds, investments in fixed assets, extent of delivery service, commodities to be handled, quality standards, frequency and type of reports and audits desired, appropriations for advertising, education, or other purposes, and relationship to regional associations and other organizations.

2. The board of directors is not only charged with the responsibility of formulating business policies, but it is also charged with the responsibility of selecting a competent manager who can make these policies effective. The actual job of carrying on day-to-day operations of a cooperative association cannot be performed by a board of directors, no matter how competent. It is necessary to centralize authority over the business details in one individual who can handle capably these details. In order to select a competent manager, the board of directors must have a clear understanding of the qualifications that a manager must have if he is to perform the duties involved in efficient management. In general, an efficient manager possesses sympathy with the aims of the association, good business ability, capacity to secure competent performance from workers under his direction, and ability to work harmoniously with the board of directors and the membership.

The problem of selecting a manager cannot be discussed without taking into consideration the question of the manager's salary. Many associations are unwilling to pay salaries in line with salaries paid for similar capacity outside the association. This penny-wise, pound-foolish attitude seldom results in securing competent managerial service. It is a better policy to pay the manager in accordance with his ability to serve the association, since this policy tends to secure loyal performance of managerial duties. It should always be remembered that an incompetent manager at a low salary can cost an association a great deal more than the difference between the salary paid and the salary required to obtain the services of a competent manager.

3. After the board of directors has selected the manager, they have the responsibility of giving him a free hand to carry on the duties of his position. This means that the directors must refrain from meddling incessantly with those details of the business which should be under the control of the manager. The first principle of efficient business procedure is delegation of authority, and delegation of authority implies the fixing of responsibility on the person to whom authority is delegated. If the board of directors does not completely delegate authority to the manager so that he can carry on the business affairs of an association in an efficient manner, he certainly cannot be held strictly responsible for results.

4. An important responsibility of directors is involved in determining whether the manager carries into effect the policies of the association in an efficient manner. If a manager is not giving full satisfaction in performing the functions delegated to him, the board of directors must secure a manager who can competently perform these functions. In order to determine whether a manager is performing his functions in a satisfactory manner, the members of the board of directors, therefore, have the personal responsibility of keeping themselves fully informed on the degree to which their association is operating in an efficient manner. This means that the directors must require the manager to provide them with full information on all matters pertaining to the operations of the association. The directors should, therefore, consider it part of the manager's job to see to it that they are at regular intervals provided with detailed financial statements which clearly interpret the business operations and financial condition of the association. Furthermore, the directors should arrange for periodical independent audits to be submitted to them directly for this affords a direct outside check on management.

The directors must not only insist on having complete information, but they must carefully study and analyze it after it has been made available to them. This means that the directors must ask themselves such questions as the following:

Are expenses being strictly controlled?
Is credit being granted too freely? or are collections being made too slowly?
Are inventories too large?
Are facilities adequate?
Are marketing services satisfactory?
Is the association borrowing too freely?
Is the manager taking full advantage of cash discounts?
Is membership support lagging, and if so, why?

Attention has already been called to the fact that the directors are responsible for developing business policies. The responsibility for formulating a policy, like the responsibility for seeing that a policy is executed, requires that the directors are fully informed on all business operations of the association. Policies cannot be intelligently adopted by the directors unless the directors know how these policies will apply in the conduct of the business.

A further advantage in having the directors fully informed on all business affairs of the association is that this enables the directors to give the manager the benefit of wiser counsel to the end that he can improve the business methods of the association. This does not mean that the directors should undertake to manage the manager. It simply means that in a properly functioning cooperative association, the manager will welcome the constructive suggestions of the directors to the end that he can better perform the duties which repose in his position.

5. The directors not only have the responsibility of keeping themselves informed on the operations of the association, but they also have the responsibility of keeping the membership informed, since they have been elected to represent the members' interests. This means that they must see to it that information is made available to the members in such a way so that the members at all times may be sure that they know what the association is doing. Too much stress cannot be placed on this responsibility of the directors, for, as a prominent cooperative leader has said, "Information to the membership is the life blood of a cooperative organization."

IV. Responsibilities of Manager

While it is the duty of the directors to determine and arrange for the performance of business policies, it is the duty of the manager to carry these policies into effect to the satisfaction of the directors. In other words, the board of directors is primarily a policy-making and supervising body, while the manager, on the other hand, is primarily the executive agent. On the shoulders of the manager lies the burden of seeing that all of the necessary detailed business operations of the association are competently performed either by himself or by workers responsible to him. As the executive agent of the directors, the manager must accept a number of definite responsibilities.

1. He must administer the business with the utmost efficiency and economy, in keeping with a good standard of service. This means, for example, that the manager of a purchasing association must buy supplies in the right quantity and of the right quality. He must see that supplies are properly merchandised. He must keep a careful control over credit; he must carefully utilize operating capital, and see that all employees are kept busy.

2. He must study all methods of doing business in order to improve operating procedures. This means that he must prepare budgets, study costs, and do everything possible to eliminate all waste.

3. He must select and supervise employees to the end that the association operates smoothly and effectively.

4. He must delegate responsibility to employees so that each employee is responsible for a definite achievement. In doing this, he must develop team-work so that responsibility for success or failure is shared by all the employees.

5. He must encourage employees to learn the business, and improve their ability to serve the association. Moreover, the manager should feel responsible for training an understudy who can carry on the work of the association in his absence.

6. He must assist the directors in the formulation of business policies for the welfare of the association. In assisting the directors, however, he must always remember that he is an adviser to the directors and that he has no authority over their actions. In other words, he must scrupulously refrain from attempting to take over any of the functions of the directors.

7. He must provide the directors with full information on all operations so that they can intelligently perform their supervising function. To this end he must prepare adequate and full reports. It is hardly necessary to add that the manager should not keep the directors in the dark with regard to any business operation, no matter how embarrassing it might be to himself, for team-work can thrive only on honesty.

8. The manager must constantly strive to develop membership loyalty. He must always remember that the association exists primarily for the members and he must do everything possible to have the operations of the association merit their support. He must always remember that the support of the membership largely depends on a high standard of service, in the broadest use of the term. The manager of a cooperative association must, therefore, be more than a good manager. He must also be a good mixer and a diplomat, for every member is also his employer. In a word, he must insist on all of his management responsibilities and yet make the members feel that it is their organization rather than his.

V. Self-Analysis Test for Members, Directors, and Managers

In the preceding discussion I have endeavored to point out the nature of the responsibilities which are involved in being a member, a director, or a manager. With this background, I would like to have you give yourselves a short test which will enable you to check up on the degree to which you are meeting your responsibilities.

Questions for Members

1. Do you understand and thoroughly believe in the cooperative method of doing business?

2. Do you loyally patronize your association?

3. Do you attend all membership meetings and actively participate in order to help the association better to serve your needs?

4. Do you endeavor to keep fully informed on the work of your association by reading reports and studying audits?

5. Do you consider abilities and qualifications in selecting directors in order to get men capable of fulfilling the responsibilities of the position?

6. Do you endeavor to get to the bottom of any complaints that may be made against the association?

7. Do you make suggestions to the directors to enable the directors to better serve you as a member?

8. Do you express your views to the directors or the manager when you are dissatisfied with treatment from the association, or do you sulk and poison the minds of others against the association?

9. Do you think that your association should pay salaries for capable management in line with salaries paid for the same type of ability in private trade?

10. Do you "talk up" your association among your friends and acquaintances?

QUESTIONS FOR DIRECTORS

1. Do you take seriously your responsibility to represent the interests of the members and to direct the association for their maximum welfare?

2. Are you and your association attempting to inform the members as to their responsibilities, duties, and ownership so that they may give intelligent support and constructive criticism to their own organization?

3. When you hear a complaint against your association, do you go to the bottom of it, accept it as true, or dismiss it as idle gossip.

4. In selecting or employing a manager, do you give consideration to the responsibilities involved and the training and experience required for the position, or do you consider primarily his relationship with you and your feelings toward him or how cheaply his services can be obtained?

5. Do you carefully analyze and consider the audit and the reports of the manager so that you can act on your own judgment?

6. Do you spend the association's money as carefully as you would your own?

7. Are you convinced that the association is operating as efficiently and economically as it should? If not, are you attempting to correct this situation?

8. When you are doubtful about the wisdom of a policy, do you seek further information, or do you vote like the majority or the leader?

9. Do you, as a director, try to manage the association and thus interfere with management, or do you recognize that the directors are responsible only for policies, and check up to see that policies adopted are followed and adhered to, leaving details to the manager?

10. Do you, as director, give to the affairs of the association the same careful attention and observation which you give to your own affairs?

Self-Analysis Questions for Managers

1. Do you feel that you have a responsibility to lead and to develop the members' understanding?

2. Do you welcome and encourage constructive criticism from your members and board of directors?

3. Do you seek to have your board of directors carefully consider the affairs of the association and the welfare of the membership before taking action on questions that come before the board?

4. As manager, do you countenance operating practices to which you would object as a member?

5. Do you consider membership meetings of such importance that a great deal of time and thought is given to preparing information and figures for use at such meetings?

6. Is the welfare of the membership the sole consideration in your every official action, or does personal interest sometimes overshadow consideration of the members' welfare?

7. Are you definitely training understudies to take your place and the places of your department heads in case any of you should retire or become incapacitated?

8. If your association is a part of a federation, do you cooperate heartily with the management of other member units and of the central organization?

9. Do you show the same respect and courtesy to your members and patrons that you would expect from them towards you?

10. If you don't have adequate volume of business, is it because it doesn't come in or because you don't go after it?

VI. Team-work of Members, Directors, and Manager Essential for Efficient Business Administration

In the foregoing discussion I have endeavored to bring out the thought that everyone related to a cooperative association -- whether he be a member, director, or the manager -- is responsible for its success. If any of these interested parties "lie down on the job," the association cannot be expected to give full satisfaction. Efficient business administration for a cooperative thus requires the team-work of all.

I do not wish to give the impression, however, that these responsibilities should place any undue burden on those concerned. The members, directors, and manager should all be sufficiently interested in the welfare of the association to clearly accept these responsibilities as the price that must necessarily be paid for an efficient association that they can be proud of.

THE MISSION OF THE FARMER COOPERATIVE SERVICE*

By Joseph G. Knapp, Administrator
Farmer Cooperative Service, U. S. Department of Agriculture

I am intrigued by the subject you have assigned me. I looked up the word "mission" and found it to mean "the sending forth of men with authority to preach the Gospel and administer the sacraments." This is the meaning in the ecclesiastical sense, and I think that this meaning carries over in everyday use. For example, we commonly use the word "mission" in military activities -- we speak of the mission of the Eighth Army, or the Seventh Fleet. I think the significant thing in the use of the term "mission" is the implication of a sense of purpose. Every organization has a mission in this sense. It is trying to accomplish something. Your state Council has a mission. Your 4-H Clubs and F.F.A. Chapters have missions. The Columbia Bank for Cooperatives has a mission. All cooperatives have missions.

These days we hear much of people who are "dedicated" to some cause or object. For example, President Eisenhower is "dedicated" to the attainment of world peace, or some great business leader is "dedicated" to the preservation of the free enterprise system. I think we mean here that a dedicated person or organization is determined to do everything within his or its power to achieve a worthy aim.

In that sense the Farmer Cooperative Service is dedicated to the idea that farmers' cooperation is a good thing for farmers and a good thing for the country. Our mission -- which was given us by Congress in the Cooperative Marketing Act of 1926 -- is to help farmers build stronger business organizations to help themselves meet their farming problems.

The Cooperative Marketing Act of 1926 was a significant piece of legislation. It accepted cooperatives as an essential form of business organization for agriculture and set forth a set of guiding rules on how the Government could properly render assistance to farmers in building efficient cooperatives. Let me read a paragraph from this Act to show its spirit and content:

> "The Division [which by the reorganization of the Department of Agriculture in 1953 became the Farmer Cooperative Service] shall render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities."

You can see from this broad authorization that work was not to be restricted to cooperative marketing -- but was to cover "cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities." Moreover, the Act recognized that federations and subsidiaries were essential to the full effectiveness of cooperative enterprise.

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*Talk given at Cooperative Conference, sponsored by Florida Council of Farmer Cooperatives and Columbia Bank for Cooperatives, Tampa, Florida, April 25, 1955.

What kind of service was to be rendered "to associations of producers of agricultural products?" The Act carefully spelled out the answer. The agency set up to carry out the provisions of the Act was authorized: To conduct studies of cooperatives; to confer and advise with them; to promote the knowledge of cooperative principles and practices and to disseminate information useful in the development and practice of cooperation. Thus our mission, as given us by Congress, can be summed up in the three words -- research, service, education.

For 29 years the Farmer Cooperative Service and its earlier forms of organization have scrupulously endeavored to carry out the intent of the Cooperative Marketing Act in accordance with the authorizations stated in it. It is significant that the Act was so well conceived in the first instance that no amendment has subsequently been found necessary even in the light of the revolutionary changes in the agricultural industry which have occurred since 1926.

The establishment of our work as the Farmer Cooperative Service by the reorganization of the Department of Agriculture in December 1953 has not in any way changed the basic character of our work. However, this action better correlated our program with other programs in the Department and provided many administrative advantages which permit us to operate more effectively. Soon after the Cooperative Research and Service Division was transformed to become the Farmer Cooperative Service, Secretary Benson said:

> "The climate in which farmer cooperatives now operate is very different from what it was 75 or even 25 years ago. The problems are more extensive and complex. The services farmers need are more numerous. ... The Department has responded to these needs by establishing a new agency, Farmer Cooperative Service."

It is also significant that President Eisenhower has expressed the view that the action of Congress in confirming the establishment of the Farmer Cooperative Service is "in line with our efforts to strengthen farmer cooperatives."

It is not enough to be given a mission to perform. Those charged with the responsibility of performing the work called for in a mission must believe in its importance. It is my conviction that the staff of the Farmer Cooperative Service have a full appreciation of the importance of the work assigned to it.

Our experience in working with cooperatives over the years has demonstrated to us the need and significance of our job. We believe in agricultural cooperation as a way by which farmers can themselves meet many of their problems. Our studies have shown us how marketing cooperatives have developed market outlets, improved returns for crops produced, stabilized markets and made savings for farmer members. They have shown us how cooperatives have raised quality standards and improved standards of competition. In working with the cooperatives we have seen what cooperatives can mean in giving farmers a sense of independence. We know that they give small farmers as well as big farmers the advantages of large-scale operation. In fact, we know from first hand experience that cooperatives are a healthy part of our free enterprise system.

However, we are not blind. We know that many cooperatives are not operating as efficiently as they should, that many are in a rut, that many are weakly financed, inadequately organized or poorly managed. While we know what can be done cooperatively, we know that many cooperatives fall far short of perfection, and fail to come anywhere near reaching their potential capacity to be of service to farmers.

We see it as our job to help bring up the standards of cooperative performance, to help cooperatives with their mission in serving American farmers.

So far, I have tried to give you an idea of who we are and what we are expected to do, and how we feel about doing it. Now, I'll try to tell you how we attempt to carry out this mission assigned to us.

The foundation of our work is <u>research</u>. We have to find the answers to problems before we can help farmers and their cooperatives meet them.

Our research work is designed to determine how farmer cooperatives can be most efficiently organized and operated so as to best serve the needs of farmers. Moreover, only efficient cooperatives can best serve the needs of the general public.

There are over 10,000 marketing and purchasing associations, and many more which render business services for some three million farmers. The problems which they have that can be helped by research are many, varied, and often complex. Obviously, the Farmer Cooperative Service cannot meet all of their research needs. All that we can do is be of as much assistance as we can. Whenever possible we endeavor to make studies which will serve the needs of groups of associations so that the benefits will be widely dispersed. Frequently, by studying the problems of one association we obtain information that will greatly help another, or a large number of associations, with like problems.

We like to think of the Farmer Cooperative Service as a coordinating center for research done in the field of agricultural cooperation. For example, many of our studies are made in close cooperation with the land-grant colleges. We believe such cooperation has many advantages. It brings to bear on the solution of a problem the resources of both agencies. The state college has the advantage of living with the problem while the Farmer Cooperative Service can bring an outside viewpoint or information on how the problem has been solved in other states that can be highly useful.

The extent of our cooperation with state colleges and other agencies in the conduct of research studies relating to cooperatives is little understood. During the past year we were called on for advice or assistance in connection with research projects relating to cooperatives by workers in practically every state of the Union. In many cases we also advise or cooperate with cooperatives on research work which they are doing. In this connection we believe that many cooperatives should do more research work on their own problems and we encourage such research at every opportunity. Along this line we have just issued a circular, "Business Research of Regional Farm Supply Cooperatives" that should be helpful to regional marketing associations as well.

The research problems of cooperatives needing attention are so many and varied that we consider the stimulation of research by others one of our important responsibilities.

One of the problems in carrying on a research program is to center attention on problems that are most in need of solution. How do we find these problems?

Frequently the problem is so insistent that it cannot be overlooked. Right now, with the price-cost squeeze there is an understandable pressure for cost and efficiency studies, and studies to improve merchandising effectiveness. With a change in the economic cycle -- or mobilization for war -- other problems quickly call for urgent attention.

There are other problems that are not so apparent but just as significant. For example, what are the trends affecting a given type of cooperative? How can a cooperative best adjust to changing economic and social needs? What is the best basis for organization or operation for a given type of association under various conditions? What is the best way for financing cooperatives? Or is there a best way? What are the advantages or disadvantages of revolving fund methods of financing? Should patronage refunds be paid in cash? All of these problems are important and the Farmer Cooperative Service cannot ignore them.

One of our problems is to arrange our program so that we can meet the insistent demands of cooperatives for research to help on a problem today, or no later than tomorrow, and also help find the answers to these basic problems. We try to do this but I must admit that it's difficult to do much research work of this basic type which is so much needed, if we are to help farmers build stronger self-help associations.

In order to help meet this need for research on fundamental cooperative problems we co-sponsored with the American Institute of Cooperation a few years ago a study of research needs in agricultural cooperation. Our idea was that if we could set out the problems needing solution this would encourage research workers in the land-grant colleges, cooperatives, and Government to make studies to find the answers for them. In this study we brought together in conferences leading agricultural economists and rural sociologists of the land-grant colleges so that the resulting report represented the best thinking that could be obtained. This report strikingly indicates how much we still don't know about cooperatives, and how much we can learn through the intelligent application of research techniques. However, I can see evidence already that this report is having a good effect in stimulating needed research in many quarters.

I would also like to tell you briefly of the conference on research in agricultural cooperation that we sponsored last December in Washington with the American Institute of Cooperation. The main object of this meeting was to build up better research teamwork between the land-grant colleges and the Farmer Cooperative Service.

Some 20 colleges were represented, including Florida with Dr. Hamilton present, and I believe it was the consensus that the meeting was a real success. The Farmer Cooperative Service and the American Institute of Cooperation is following up this national conference by sponsoring at Washington State College next month a regional conference of the same type with the land-grant colleges of the 11 western states.

I have mentioned these conferences because they indicate how we are striving to enlarge our research efforts through building better team work with the land-grant colleges.

One of our most important functions is to help keep cooperatives on the track. We frequently can help them in not making mistakes, or we can help them find out how to do things. Many of our studies are like time bombs. They may not be immediately used by the association or associations studied, but years later we see the findings being gradually put into effect. In one case our studies over a long period of years eventually led to the development of a strong national cooperative organization. I can think of several other cases of this sort.

It is our experience that cooperation grows best from good examples. Every time we help strengthen a cooperative we improve the standard of cooperative performance. When farmers come to know how a good cooperative operates they will not be long satisfied with poor cooperative performance.

The American Institute of Management has attempted to rate or evaluate the management performance of a limited number of businesses. There may be an idea here for cooperatives. At least we are doing everything we can to help cooperatives improve standards of management.

In our work we like to think of ourselves as working to help farmers through their cooperatives. We are not interested in the glorification of management -- but we are deeply interested in the job that management does. Our studies are made to help management do a fine job for farmers -- not for their personal benefit.

We are carrying on a number of research projects of interest to all cooperatives that I would like to describe, but I will content myself with one. In recent years many cooperatives have desired a general study on methods of cooperative financing. At the request of the National Council of Farmer Cooperatives we are now engaged in a comprehensive analysis of the financial structures of cooperatives. The results from this work should provide helpful information to the cooperatives and many others on how cooperatives are financed, and the best arrangements for financing them.

Here in Florida we are working on a number of problems jointly with your organization and the college. These include studies of bulk handling of citrus, cost of packing and pricing citrus products, packing house consolidation, and an appraisal of the effectiveness of fresh citrus sales departments. We are also helping actively on your growing cooperative livestock marketing problems, and in the near future we are planning to help one of your associations on a farm supply purchasing problem. Some of this work is carried on with funds made available under the Agricultural Marketing Act of 1946.

I should like to point out here that in addition to our regular research work with cooperatives, carried on under the provisions of the Cooperative Marketing Act of 1926, we also carry on agricultural marketing studies of industry-wide significance with funds made available through the Agricultural Marketing Act. These studies are not exclusively made to help farmers with their cooperative problems but they benefit members of cooperatives, along with all other farmers.

Do we need research today as much as in the past -- and what kinds? This is a good question. My answer is "more and better." The problems of cooperatives are becoming constantly more complex and they call for specialized research assistance. There are many cooperatives still in the horse and buggy stage -- they need modernizing. There are new groups coming along -- they need guidance. There are old cooperatives that have lost their way -- they need to be reinvigorated.

How one answers the question of whether more research is needed or not will depend on what one is satisfied with. I am of the view that if you look into the future and say -- "Let things slide" -- competition will soon tear down cooperative progress to date. Today competition is so keen that cooperatives cannot stand still without falling behind. Have you ever been passed by a car going so fast that you seemed to be standing still -- even though you were jogging along at a pretty good speed? That's what I mean.

It seems to be indisputable that if farmers are going to continue to have much say in their business affairs they are going to need stronger cooperatives to represent them.

The object of our research studies is to render <u>service</u>. Our research would be of little value unless its findings were applied.

The Farmer Cooperative Service has never made research studies without endeavoring to see that the results were utilized. Moreover, the selection of problems for study is determined by the estimated usefulness of the work to be done.

Some of you may not know that the Farmer Cooperative Service does not maintain a separate staff of service workers who attempt to apply the results of research. Each research worker on our staff is also a service man. It is part of his responsibility to get the results of his research work into effective use.

For practical purposes, we find it desirable to distinguish between research and service work, although the whole purpose of the Farmer Cooperative Service can be summed up in the words, "<u>Service to farmers on their cooperative problems.</u>"

When we refer to our service work we mean usually the work we do to help a cooperative or a group of cooperatives on a specific problem. To help solve the problem no new research may be necessary, for we may have made studies that provide all the necessary information. But generally it takes some specific study to meet the most simple service request. We get hundreds of requests annually calling for help on some particular problem. They come to us by mail, wire, long distance telephone, or in person. Frequently we can provide the information called for by making results available from past research studies, but generally it takes several hours or several days to develop just the information that is needed.

Harold Hedges once defined a service project as "one attacking a specific problem of a single cooperative or a group of cooperatives and doing only the research needed to bring out the facts of the case." This is a good definition but it covers a lot of applied research effort. Anyway, part of our mission is to get our research results into use and this can't be done without service work.

To understand our service work you might look upon us as a co-op service station -- comparable to a service station where you can get your car oiled and gassed or otherwise fixed up. When you take your car to a service station you don't expect research work to be done but you expect that the work done will be based on good scientific principles as established by research. Our ability to help on problems quickly depends to a great extent on the fund of experience and data which we have built up in assisting other cooperatives on similar problems. To a great extent, the bulletins, circulars and reports of the Service make unnecessary direct service work. In frequent cases we have the answers that will help a group of producers meet a given problem if the problem is brought to our attention.

As I indicated above, many service requests call for localized research studies to meet a particular problem. Frequently, we report our experience in working on a particular type of problem in the form of an article or circular which can be made available to a large number of cooperatives which might have this same problem. Thus, the value of the results of our service work is not restricted to the particular association or associations directly served. The information gained from helping one or a few associations enables the Service to use the information so developed to help a number of other associations on a similar problem.

For example, we made a study recently to help improve the transportation efficiency of a group of cooperatives in the Pacific Northwest. This involved a considerable amount of work. A short time later a similar problem arose in Texas, but little direct work was required as the results of the earlier study largely met the needs of the Texas group.

To the extent possible, we work through and with the state and local agencies in meeting requests for assistance. We are not set up to serve all the cooperatives who may need help from time to time. By working with the state colleges and similar agencies we are able to spread our attention over a wide area and backstop them in meeting local problems. In many cases we refer requests for service work back to the state colleges since they are in better position to render the aid desired. In all cases we endeavor to keep the state agencies informed of work being done in their states, as this enables us to maximize our respective abilities to help on a common problem.

Many times the farmers call on their county agent or state marketing economist for help on a problem where outside specialized knowledge is needed. Many calls for service work come from state workers with such problems. For example, this past year a group of new barley growers in California needed information in setting up a cooperative elevator for their product and little experience was available in California on this particular problem. They discussed this matter with their county agent who called in the state marketing extension economist. He, in turn, requested assistance from the Farmer Cooperative Service. The chief of our Grain Branch sent out suggestions by mail, and subsequently made a brief survey of the situation with representatives of the college and the county agent, and a satisfactory plan was worked out for designing, building, and locating the required facility.

As I have indicated, the mission of the Farmer Cooperative Service, in substantial degree, is carried out through research and service. Of equal importance is our educational work.

We look upon our educational work as the end product of our research and service activities. Without them we could not be effective in doing an educational job.

The Cooperative Marketing Act wisely recognized the need for education as well as for service and research. Let me emphasize this by quoting our authority as given in the Act: "To promote the knowledge of cooperative principles and practices and to cooperate, in presenting such knowledge, with educational and marketing agencies, cooperative associations, and others." Furthermore, we are authorized by the Act "to make such special studies, in the United States and foreign countries, and to acquire and disseminate such information and findings as may be useful in the development and practice of cooperation."

It is sometimes hard to draw a line between service and education. Our service work is carried on to help a cooperative or group of cooperatives meet an immediate problem. Our educational work is done to help cooperatives meet problems as they arise. The better job done in education the less the necessity for assistance on specific problems. In our educational program we consider our function to be primarily that of providing information that can be used by others in carrying on teaching activities. We try to provide the source materials needed by colleges, county agents, vocational teachers, educational departments of farm organizations, and cooperatives, and many others.

A recent study made by the land-grant college consultant of the American Institute of Cooperation found our publications being widely used for teaching purposes in practically every state of the Union. The bulletins and circulars of the Service reach a wide readership. Many of these publications are requested by non-cooperative business establishments, as they provide information helpful to these agencies. Our principal medium for cooperative education is our News for Farmer Cooperatives which goes to cooperative managers, college workers, county agents, vocational teachers, etc. In this publication we endeavor to disseminate the results of current research. Many county agents and cooperatives keep a current file of this publication and draw on it for information as needed.

Many of the articles issued in the News are picked up and reprinted in various cooperative house organs. Thus the information issued in the News reaches a wide and selective audience. In 1953, for example, some articles in the News were printed in a dozen or more house organs. Frequently, individual articles reach circulations of several hundred thousand.

An important part of the educational work of the Farmer Cooperative Service consists in formal training programs for cooperative groups. In recent years we have cooperated in workshops, clinics and formal educational programs in many states with the Extension Service, American Institute of Cooperation, banks for cooperatives, and departments of vocational agriculture to instruct county agents, vocational teachers, and cooperative leaders. Another educational activity has been the preparation of training aids for educational use. These are simply text book materials adapted to meet the needs of specific groups.

One of the functions of the Farmer Cooperative Service is to serve as a national clearing house on cooperative problems. A cooperative official or state college worker or a representative of some other government agency may need help. They turn naturally to the Farmer Cooperative Service.

The Farmer Cooperative Service is the only public agency in the United States studying agricultural cooperation in all its phases. It is the main source of public information on agricultural cooperation. Over a long record of years it has maintained the national statistics on farmer cooperation which are used by research workers, students, legislative bodies and all others interested in the subject.

Our work under the technical assistance programs in helping foreign visitors understand the methods of our farmer cooperatives is also very important, and I am pleased to see in this audience some of these visitors who are now studying at the University of Florida. Last year we helped 263 visitors from 42 countries by consultations or by assistance on itineraries. Thus our work helps strengthen the entire free world.

I hope that my remarks have helped you better understand the work of the Farmer Cooperative Service in carrying out its mission. As I said at the start of this talk, our mission -- which is simply another name for our job -- is to help farmers build stronger business organizations to help themselves meet their farming problems. We are proud to have this mission intrusted to us.

FARMER CO-OPS ARE A BUSINESS ON MAIN STREET 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service

The title given for this talk intrigues me. Am I supposed to point out that co-ops have now arrived? How they have become a significant factor on Main Street? Am I supposed to dispel an inferiority complex that cooperatives are a sort of country cousin type of business - by showing that they are up and coming establishments that can hold their heads up on Main Street?

Perhaps that wasn't the idea that those who gave me this title wanted me to develop. Perhaps they wish me to emphasize that co-ops are now significant parts of the business community -- and that they have responsibilities like other business units on Main Street. Do co-ops -- and I mean by co-ops - their members, directors and managers -- sufficiently realize that <u>they are business firms operating on Main Street</u>? That is a good question to examine.

I think a talk could be built on either of these points of view -- so I will straddle and use both.

It is true that many people -- in cooperatives and out -- do not realize how important co-ops are as business firms. Take all the farmer cooperatives off of Main Street and there would be a great change in our business life -- and not for the good. Here in Colorado -- just imagine that all cooperative facilities in the State were lined up on one street and that the houses of the employees were placed back of them. This would make a good-sized town that all could see and back of them would be tens of thousands of farmers. When we visualize cooperative business in this way it takes on added significance.

Why are co-ops on Main Street? Because that's where business is done. I don't mean that a co-op has to have its facilities located on the main street -- a better location may be in the outskirts of a town or city. But I do mean that a co-op must be a respected part of the business community -- on Main Street as well as on the side streets.

I can remember when farmer co-ops were less concerned with having the respect of the business community. Farmers then didn't feel so much at home on Main Street. Now, they want their own businesses to be as good as other businesses which serve them. They know their co-ops must have good facilities, be well located, and staffed with competent employees.

1/ Talk given at First Annual Cooperative Management Short Course, Colorado A & M College, Fort Collins, Colorado, November 15, 1955.

One of the things that impresses me as I look back is the way co-ops have become much more obviously alert enterprises. They stand out and welcome comparison with other business firms. In many communities one of the best equipped centers for service in town is that of a co-op.

I think that this is a fine development. It builds self-respect on the part of the members and employees, and also the respect that any person has for a first-class business establishment.

So — to answer the first question — it is generally true that farmer co-ops have become respected businesses on Main Street. At least they are more generally respected than a few years ago.

Now, I do feel that it is important to get this fact over to many people. There are many with axes to grind who do their best to build ill will toward the co-ops. Such people sneer at farmer co-ops at every opportunity. They maintain that co-ops are inefficient, or that they enjoy tax advantages, or that service is poor, or this or that. We might as well face it -- there are some people who just don't like co-ops -- and looking at it from their point of view it's easy to see why.

It is because cooperatives have become businesses on Main Street -- they give strong competition. If they weren't effective as business units there wouldn't be much opposition to them.

I don't think cooperatives spend enough time and energy teaching people that co-ops are to the advantage of the business community as well as to the farmers served and the nation as a whole. I dealt with this theme recently in an article in the News for Farmer Cooperatives, entitled, "Co-ops Vital to Farm Well-Being". Here I pointed out that the prime object of a cooperative marketing or purchasing association is to help farmers improve the efficiency of their farming operations. I also stressed the fact that cooperatives help farmers on farm management problems, that they help farmers find market outlets, that they serve as training schools for democracy, that they help strengthen rural communities, and do many other things of value not only to farmers but to our society as a whole.

Much of the opposition to co-ops comes from ignorance. What we don't know, we are against. If more people really understood the organization and objectives of cooperatives and how important they are to the prosperity of the farmers -- who help support the prosperity of our nation and the towns in it -- there would be less sniping at them.

Cooperatives have a real public relations job in teaching their home town folks that they are good citizens. When I was in England this past summer on a vacation trip I was impressed with what farmer co-ops over there call their prestige advertising campaign. They are trying to get farm people in general to recognize the importance of cooperatives. To do so they are buying space in general farm magazines to tell their story. I believe we could go quite a little further in prestige advertising over here. I do not mean institutional advertising to build up the acceptance of one cooperative -- although that is good too. Rather, I mean advertising of the value of farmer cooperatives in general.

A month or so ago at a meeting of the American Marketing Association I heard a talk by James A. Farley, formerly Postmaster General. Mr. Farley's business as vice-president of the Coca Cola Export Company, takes him to almost every country in the world. He told how thrilling it was to see advertisements of American products -- whether Coca Cola or Singer sewing machines, or Fords or Chevrolets, or whatever you choose -- in far away places -- like the center of Africa or deep in Burma. The presence of these products gave him the same satisfaction as the words, "Kilroy was here" gives a G. I. These advertisements were to him a constant reminder of the American free enterprise system at work. It gives me the same kind of satisfaction to see cooperative advertisements like Sunkist or Land-O'Lakes for they are a sign that American farm cooperatives are part of this same business system of ours. The more consumers call for cooperative products the greater the acceptance of cooperation as a method of business. Thus institutional or product advertising can also be prestige advertising for cooperatives as a part of our American free enterprise system.

Let the people know -- if you want their support. This conference is something people should know about. It is significant when representatives of cooperatives from all over Colorado come together to improve management. This conference should help increase the prestige of cooperatives in the State by showing that they are as alert to modern thinking as any other form of business establishment.

How many people know the story of co-ops in Colorado -- how important they are -- how many farmers are part of them? No one can ignore a form of business organization which embraces about three-fourths of the farmers in the State. That many Colorado farmers can't all be duped. They must be getting values from their own organizations.

Now to come to the other aspect of this talk. Do co-ops recognize their responsibilities on Main Street? Do they join with other business establishments on community problems? Do they strive to strengthen their home towns and make them better living places? Do they tie into the local commercial and service clubs and community enterprises? Do they go as far as possible in building good will by their actions

on Main Street? My answer to this is that cooperatives are not sufficiently realizing their general community responsibilities. They are still too much on the defensive. They need to "get in and pitch" more.

Too many people view farmer co-ops as something different from other business establishments. But are they? They are simply businesses set up and owned by the people who are served by them. They are not opposed to private property, or the principle of looking out for one's self-interest. They are as much part of our free enterprise system as any other type of business.

I believe that there must be freedom of choice in any free enterprise system worth its name. If people wish to use cooperatives or any other form of business that should be their own affair. Let there be competition in the market place between co-ops and other businesses. Sometimes the co-ops will win -- other times they won't. Unless a cooperative can serve a farmer's needs as well or better than a competitive firm it cannot expect to long enjoy the farmer's support, and this works vice versa. Such competition, to my mind, is healthy. It indicates that the free enterprise system is really working as it should. Friends of the cooperative form of business cannot ask for more than a fair break.

Several years ago I sat down one night and tried to figure out "What farmer co-ops stand for". I came up with the following statement which may serve as a good closing for this talk:

> "It seems to me that there should be more public knowledge as to what farmer cooperatives stand for in the United States today. Among other things, they are for decent living conditions and the preservation of neighborliness and family life. They believe that conservation of our basic agricultural resources and assurance of adequate industrial supplies for protection in time of peace or war is very important. Cooperatives adhere to strict democratic principles of operation in political, social, or economic activities. The ideals of fair-play and truth in business are upheld by cooperatives as shown in honest business relationships, truthful advertising and selling, quality and performance as standards of efficiency, pace-setting, and the elimination of marketing abuses.
>
> "Farmer cooperatives are interested in preserving American liberties in all their forms. They believe in the right to hold private property, they resist governmental domination over the life of citizens and advocate self-help. They have expressed undying opposition to fascism, communism or other subversive doctrines, and are working for preservation of our American way of life on a continuously improving basis, not

just maintaining the status quo. Freedom of economic choice, or freedom to hire a job done by a business firm or to do it for oneself, independently or through a cooperative organization, is advocated by farmer cooperatives. They also work for the strengthening of the capitalistic, competitive free enterprise system by opposing development of monopolies and by controlling inflation.

"In the field of agricultural betterment, farmer cooperatives have worked long and hard. They stand for protection of the family-sized farm as the basis of our agricultural life, and social and economic independence for the individual farmer. To make living more pleasant for the farmer and his family, farmer cooperatives work for the expansion of sound programs for agricultural betterment, the spread of scientific knowledge, and the encouragement of better farm management practices, improved rural educational programs, better roads and schools, better transportation and communication functions, and the electrification of farms.

"Farmer cooperatives would like to see farmers provided with supplies to meet their specified farming needs, an expanded demand for more nutritious food products, and a better utilization of farm by-products. Orderly marketing so as to eliminate gluts and shortages, and access to agricultural credit are all included in the goals of farmer cooperatives, which represent the farmers behind them."

Thank you.

CHANGES AND YOUR COOPERATIVE 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service, U. S. Department of Agriculture
Washington, D. C.

I consider it a great honor and privilege to be with you on the occasion of your 35th annual meeting. I am glad to be here for several reasons.

I have many good friends here in California where I lived the happy life of a student at Stanford University some years ago. In fact, it was here that I met my wife, and what could be more important in a man's life? Furthermore, I am always stimulated by contacts with your many fine cooperatives which have made such a great contribution to the prosperity of California agriculture. As you probably know, your state leads in the volume of business done by its farmer cooperatives--800 million dollars in 1954.

We in the Farmer Cooperative Service of the U. S. Department of Agriculture have been working with and trying to help and serve farmer cooperatives over the entire nation for more than thirty years. In this work we have had many contacts with your association. We have records going back to the formation of your association in 1921. We have made three studies for you--the first on administrative organization in 1942. The other two, in 1947, dealt with the problem of your mill location and the question of type and size of mill needed.

I have known all of your general managers beginning with W. R. Roby. Your present manager, Robert "Britt" Cooper, and I became friends a dozen or so years ago when he was with the G.L.F., the large regional purchasing and marketing cooperative which serves farmers in New York State, New Jersey and parts of Pennsylvania. I was greatly pleased when Britt asked me, on behalf of your Board of Directors, to participate in this Annual Meeting. He suggested that I discuss with you changes now taking place relating or pertinent to cooperative purchasing and marketing, especially as they may apply to you as farmers and as owners and members of the San Joaquin Valley Poultry Producers Association.

1/ Talk prepared for the Annual Meeting of the San Joaquin Valley Poultry Producers Association, Tulare, California, November 15, 1956

My reason for being here lies in the hope that I may be able to convey to you some facts, thoughts, or ideas that may prove helpful in your group action as farmers and organized poultry producers.

Annual Member Meetings Are Important

An annual meeting such as this provides the best opportunity of the year for cooperatives to consider many things. It is an important event in the life of any business organization, whether or not it is a cooperative. For the members of a cooperative an annual meeting has a double appeal. They have money invested in their cooperative, and they also do business through it.

The annual meeting of a cooperative warrants double interest in another respect--it is actually a combination of a birthday and a New Year's celebration. It is a milestone measuring the passing of another twelve months in the life of an association. But beyond this mere passage of time, it has the more important aspect of New Year's Day--it is the time to look back to evaluate and take inventory, and to look ahead with new hopes, plans, and resolutions.

While looking back may be helpful as a guide to the future, it is the "forward look" which makes for progress. We learn from the past to move forward. We have in Washington an Archives Building where our priceless documents and records, such as the Declaration of Independence and the Constitution of the United States, are carefully kept and guarded. On the front of this building are carved the words, "What is Past is Prologue." When one of our taxi drivers was asked by a visitor what this meant, he replied, "It just means that you ain't seen nothing yet!" So it is with cooperative effort among farmers--we have probably seen "nothing yet" in comparison with the opportunities and certain development ahead for this great self-help movement of our farm people.

P.P.A. has Long Record of Achievement

One of our Branches keeps a continuing reocrd on practically all of the farmer marketing and purchasing cooperatives in this country. Before coming here I naturally tried to familiarize myself with some of the background history of your association in order that I might more intelligently discuss points of interest and value to you. The long record of your association is an interesting one. I found that your association, organized in 1921, is one of the oldest poultry cooperatives in the United States although there are several large regional poultry cooperatives in the West which go back farther. Even these, however, were preceded by an earlier egg-marketing cooperative here in this Valley, the Tulare Cooperative Poultry Association which was organized in 1913 and which continued operating until 1930.

I do not have full information on the circumstances and factors which led to the birth of your association in 1921. Possibly a few of you older members recall those days and events--possibly some you here today had an active part in that pioneer affort.

No doubt your association started small. Our records show that during your first year you handled corn, wheat, oats, and barley, with a total value of $78,000 for 180 members, while you are now doing a 5-million-dollar business with and for your 1,200 patrons. I find also that over the years your association has rendered valuable services to you in furnishing needed poultry and other production supplies, especially feeds, and in providing a ready and dependable market outlet for eggs, chickens, and turkeys. I am of course aware that you discontinued the chicken and turkey marketing operations several years ago.

It is not my purpose to try to tell you how well your association is doing or to try to assess to what extent it may or may not be meeting your hopes or attaining its potentialities. This I could not do anyway since I have not been close enough to be either complimentary or critical. To be either would require a thorough knowledge of the degree of success attained by your association, but it would also require--and this is most important--knowledge of the factors, the situations, and the circumstances which would explain the degree of success attained. While our work with cooperatives of every type, size, commodity, and location in this broad land of ours has given us insights into this type of cooperative activity we would be the last to measure your progress without full study of the many conditions which have confronted you.

I know that your association can take credit for many accomplishments --its record of service for more than a third of a century proves this. For example, according to one of your recent reports which I have just read, the eggs produced here in the Valley began to be rejected a few years ago in some of the larger California markets because of poor quality. To correct this, your association went on a quality program under your "A" pool plan. It is quite significant that in one year your association became the source of some of the highest quality eggs in the state. This proves what you have been able to do by group effort.

Poultry Industry in San Joaquin Valley Offers Cooperative Opportunity

A quick look at the poultry industry here in the San Joaquin Valley shows its great importance. Apparently this industry has been important here for many years--the obvious reason for the setting up of this cooperative 35 years ago. Otherwise, there would not have been sufficient interest and leadership among the poultry producers of this Valley to organize one of the first poultry cooperatives as far back as 1921.

Even with the tremendous development of other agricultural products --cotton, fruits, nuts, dairy, and other-- poultry production apparently has held its own, as shown by Census figures for 1954. The five or so counties served by this association--Madera, Fresno, Kings, Tulare, and Kern--are among the leading egg and turkey-producing counties of the some three thousand counties in the United States. For instance, of the 100 leading counties of the nation, Tulare County ranked 18th in dozens of eggs sold and 21st in their value--over $3 million worth. In the number of turkeys raised (1,700,000) Fresno County was exceeded by only one county in the United States--by Rockingham County of Virginia. Tulare County ranked 11th and Madera County 13th. Also in the number of turkey hens kept for breeding, Tulare, Fresno, and Madera Counties ranked 3rd, 7th, and 18th, respectively.

Despite the fact that Fresno County is not a leading broiler-producing county, it ranked 9th among all U. S. counties in the value ($13,280,000) of poultry and poultry products sold in 1954. This means that the purchases of chicks, poults, feeds, and other supplies and services, plus the sales and home consumption value of eggs and poultry, for this county alone, were about $30 million.

These few figures give some idea of the enormousness of the poultry supply needs and volumes of poultry products marketed here in the San Joaquin Valley. This potential leads me to wonder why more of these supplies are not handled and marketing services performed by the producers themselves.

I now wish to touch rather briefly on several trends which are of importance to your cooperative and to almost every cooperative in the country.

Increasing Efficiency

Businesses are making strenuous efforts to cut costs and to operate as efficiently as possible. Great strides have been made through better plants, better utilization of labor and equipment, more mechanization, and now through automation. Many cooperatives have made or are now making rapid and major changes in their handling and marketing operations to meet competitive conditions.

Your manager has told me of some of the steps your association has taken recently to lower costs--such as reducing the number of mill and retail store employees, selling excess equipment, etc. This cost retrenchment program, he informs me, has resulted in cutting the payroll in half, in reducing overhead and some other costs, with the result that total costs have been cut over $300,000 a year.

I need not tell you the need for cooperatives to operate at as low cost as their competitors if they are to compete cost-wise. Your present management has taken a big step in the right direction through more efficient use of manpower to reduce the variable costs of your operations.

Many cooperatives--and I think this applies to P.P.A.--have got themselves into a weak financial position by heavy investments in facilities that cannot be quickly amortized in the absence of a substantially increased business volume. In this situation steps must be taken to reduce the burden of increasing operating costs so as not to impair membership support and thus weaken volume which is essential to efficient operations. Reduction in capital costs might come from planning the financial program on a longer-term basis, through increasing volume or broadening of services to reduce per-unit costs, or through sale of fixed assets. Solution of such problems calls for a careful analysis of all possible alternatives. My point here is that a problem of this kind will not correct itself. A positive, effective financial plan must be developed.

Full Plant Utilization

An important factor in costs is the extent to which plant and equipment capacities are utilized. Overhead and administrative costs in particular will be high on a per-unit basis if plant and equipment investment is high and costly facilities are not fully or adequately utilized.

Indicative of the need to utilize facilities as fully as possible to keep fixed costs per unit at the minimum are the two and even three shifts a day now being used in many cooperatives.

Member Patronage Necessary

The matter of volume is most important in keeping these costs low. Certainly no cooperative can obtain the necessary volume of supplies for its members or products to market without their support and patronage.

Knowing the great benefits and protection which they have obtained from their cooperatives, it is often difficult to understand why many farmers do not give their cooperatives better support. I am afraid that a large portion of even the active members of many cooperatives do not adequately understand them. Many do not realize that their cooperative is an extension of their farming operations beyond their farm gates for the purpose of obtaining their supplies more directly or of moving their products closer to the consumer. They fail to appreciate that the money they have invested in their cooperative is as much of their farm operations as an equal investment in a tractor, sprayer, or self-feeder. Many do not realize that there may be as much or even greater gain to them in the marketing of a product in union with others as in its production.

In our work we sometimes think that the lack of greater patronage, of greater loyalty to cooperatives, is due to this lack of knowledge of their cooperative on the part of the members. For instance, only a small part of the 1,200 active members of this association have taken the time to attend this meeting when management makes its annual report to the members on its stewardship of the business. Those present probably represent a large proportion of the volume of business done by the association. The question arises as to why the others do not show the same interest. Maybe the association has grown away from its members. Maybe greater effort should be made to establish or bring back closer relationship and understanding between members and management.

Member Participation in Management

We find that members often are silently critical of their association because they do not, for some reason, like the way it is being run. When this occurs every effort should be made to encourage the disgruntled members to "speak up" and to take a more active part in the management of the association (1) by attending and participating in such meetings as this where vexing problems can be threshed out; (2) by helping to nominate and to elect directors of their choice; or (3) by being elected to and serving on the Board of Directors. It is too bad that there is not more active competition for election as board members in our cooperatives. There would be several advantages to this.

Although there has been a decided change for the better during recent years in many cooperatives, there is still a tendency to re-elect the same directors term after term, with the result a few old-timers become so entrenched that many members feel the association really belongs to these perennial directors. More able, vitally interested, willing, and enthusiastic members should be encouraged to participate more actively in the management of what is in part their farm business. This applies in particular to our younger farmers -- many of whom have an alertness of mind, the business acumen, education, and maturity not enjoyed by their fathers at their age. All they need to be good directors is experience on the board. How can they obtain it except by having an opportunity to serve? Too often they find the cooperative board a closed deal. This is no criticism of your present Board of Directors for I have been told that they are taking an increasingly active and constructive interest in the affairs of your association. My point is that any Board should be made up of members actively doing business with your association--with a general sprinkling of younger members to insure vigor and continuity.

I could say much more about the need for efficiency in the operation of cooperatives. Certainly progressiveness, aggressiveness, and foresightedness are essentials for cooperatives if they are to maintain their place. In our research, service, and educational work with farmer cooperatives it is our aim to help farmers build cooperatives which are able not only to hold their own but to become industry leaders. Having been set up to improve a marketing or purchasing situation, many cooperatives become such pacemakers and benefit also nonmembers who are served by firms who must meet the cooperative competition.

However, some associations, just the same as some people, get into difficult situations for various reasons. Sometimes they throw up their hands and say "What's the use?" Others roll up their sleeves and say, "Let's get to work."

There is no point in glossing things over. I know that you have had a difficult egg marketing situation. I know that you have been saddled with fixed expenses on a feed mill much larger than you have needed. But there is need for a poultry cooperative here, and the best solution to me seems to be for all to pitch in and help this association give the best service possible.

Broadening of Services

The more services producers can satisfactorily perform for themselves by group action through cooperatives, the lower their production costs can be and the higher their net income. In other words, through their own efforts they can do much to lessen the cost-price squeeze. When I think of farmers in this squeeze I visualize two converging beams representing costs and prices with the farmer caught between them. His cooperative can act as a jack screw to force these beams apart and thus reduce their pressure.

We hear much about integration these days, and the poultry industry has not been immune to this development. Actually, this idea is not new in the cooperative field. In cooperative circles it has often been called broadening the base of operations--that is, taking on additional or a more complete line of services for producers. Most cooperatives were set up primarily to either market a product or to purchase supplies--not to do both. With the passage of time, most of these single-service associations have taken on other services. For example, many marketing associations have entered the supply field, or vice versa.

During the past twenty years there has been considerable vertical integration in the turkey industry. The same agency -- co-ops, in some instances -- has furnished the poults, feed, medication, supervision, finances, and other production services, and then has carried on or controlled the processing and marketing. The same sort of vertical integration, with many variations, now dominates the chicken fryer-broiler industry in most of the principal broiler-producing areas. The latest development is in the production and marketing of eggs. While this is new, it is growing and spreading. Whether or not cooperatives like vertical integration, they are being forced to meet it. Where they are already performing both supply and marketing services they should be able to meet this competition. Where, however, they perform only a single service such as handling feed or performing a market service, they may not be able to meet this competition unless they either broaden out into integrated operations themselves or join with others on an integrated program. Many cooperatives serving poultry producers are finding it most difficult to maintain or to increase their feed volume or their broiler or turkey volume unless they engage in production financing or credit extension services. Obviously, the financing of broilers and turkeys is fraught with greater danger for the single-service or non-integrated cooperative than for the integrated association, due to the latter's greater amount of supervision and control, possibilities of earnings, and flexibility of operations.

Limited service cooperatives with heavy investment in buildings and equipment in particular have encountered difficulties when faced with the competition of more fully integrated operators. This is often due to their inability to maintain unit costs at or near the same level when volume drops off because fixed costs have to be met by this reduced volume. Full utilization of facilities, one of the "musts" for low unit-cost operation, may depend upon the adoption of vertically integrated operations.

Some years ago we made a study for a cooperative which handled large volumes of turkeys. It operated poult hatcheries, made and sold turkey and other feed, operated a number of dressing plants, and did its own marketing. It did not perform one service, however, in its integrated operations -- that of credit extension or production financing. As a result, its hatchery volume of poults, turkey feed, dressing plant operations, and sales volume suffered severe declines. Our Service was asked to make a study of its operations and problems and to suggest solutions to the problems. Among several other suggestions we recommended a cautious and limited program of credit extension on poults and feed. The association followed this suggestion and within a very short time sharply reversed its declines in poult and feed sales, in processing and in marketing.

The adoption in this case of one additional service resulted in fourfold increases--in hatchery operations, in feed manufacture and sales, in processing plant operations, and in sales volume of dressed turkeys. At the same time, but with careful control of its credit operations, this association has had almost infinitesimal losses from its extension of production credit to turkey growers.

Now please get this point. I am not advocating loosening up your credit policies. In fact, that is one of your present difficulties. A few years ago you relaxed your credit practices to gain volume and your accounts receivable mounted to unmanageable proportions. Capital tied up in these accounts has pinched your operations. It is a hard road back. Credit properly controlled is a good merchandising tool, but eternal vigilance is required to keep the slave from becoming master.

More Coordinated Effort Needed

I will now touch upon one more topic--that of the need for more joint or coordinated effort among cooperatives.

This is a day of bigger and bigger business units. It is necessary for cooperatives to keep up with this trend and obtain the same advantages of bigness that others enjoy. Although there are many large organizations and federations among the ten thousand farmer cooperatives in the United States many are small and unaffiliated. On an individual basis these small associations are weak, bargainwise.

There are at present over 150 marketing federations and 100 purchasing and service federations. Marketing cooperatives in fruits and vegetables, grain, dairy, cotton, and poultry have set up the most federations. Your own association is one of the 28 member associations of United Cooperatives, Inc., for supply operations.

A next step in strengthening cooperation among farmers is greater development of federations and of more coordination among federations. We expect to see the creation and growth of additional and stronger federations in the years ahead. The increased competition among cooperatives themselves as they grow larger, the need for market information, the huge volume requirements of standardized products of the chain stores and other large buyers, the need for more capable, experienced managerial employees, and on-the-spot sales staffs, and other needs will result in more and stronger federations of cooperatives. The day of successful solo operation for the small co-op is rapidly passing.

Whenever we think of federations among egg cooperatives we are mindful of the Pacific Egg Producers Cooperative, Inc. (PEP), the old, now-dormant federation of egg co-ops in Seattle, Portland, San Francisco, Los Angeles, and San Diego which, in the 1920's and 1930's, did a historic job of marketing as high as 1,870,000 cases of eggs a year, three thousand miles from the place of production, and of obtaining premium prices above eggs produced at the back door of the New York and other large markets on the Atlantic Coast. Because the Pacific Coast area ceased to be a surplus egg-producing area in the early 1940's, this eastern sales federation became inactive.

You are, of course, familiar with the Norbest Turkey Growers Association, Salt Lake City, Utah, the federation of 12 turkey cooperatives located in six States extending from California to Wisconsin. This outstanding federation, which handled 3½ million pounds of turkeys during its first year, 1930, will probably handle 100 million pounds this year -- making it the largest turkey sales organization in the world. This association has four plants in California, including a new plant at Selma.

Elsewhere egg and poultry cooperatives have set up sales federations, and several more are in the offing -- in the heavy egg-surplus North Central States in particular. Prior to 1953 more than 60 local egg cooperatives in the East sold their surplus eggs in competition with one another in New York and other large eastern cities. Although this competition was friendly, it was in many instances definitely harmful. The co-op leaders gradually learned that their cooperatives could do a better job by working together in sales of surplus and in other efforts. As a result, about 20 cooperatives set up their own sales and service co-op to serve and represent them in New York and other markets. Although the Northeastern Poultry Cooperative Association is only four years old, it has already proved its value to its members. It is doing an orderly job of marketing and, by virtue of its membership on the egg trade board, it has done much to stabilize and strengthen the egg market generally -- a benefit extending in some instances to all egg producers of the Nation.

In Ohio, in 1939, a federation of egg cooperatives, Federated Egg and Poultry Sales, was organized to sell the surplus eggs of the member associations and to prevent undue competition in the larger markets. This federation has seven member associations which blanket Ohio and serve nearly half of Indiana as well. It has sales branches at Columbus and Cleveland, Ohio, and Pittsburgh, Pennsylvania.

While wholesome competition is healthy, undue competition in the larger markets among cooperatives, especially small local cooperatives, may be harmful. In many instances, the competition of another cooperative is harder to meet than that of other types of operators.

I am aware of the fact that from time to time various efforts have been made to increase cooperative action between the poultry and egg associations here on the West Coast. It seems to me that all indications point to the need for closer coordination of effort among the western poultry cooperatives. Just what form this closer coordination might take I am of course not prepared to suggest for this is a matter deserving careful thought and study.

To sum up, it is my hope that I have said something of interest to you. At least, I have given you an "outsider's" opinion, and sometimes it's good for us to see how others look at things. I do wish to emphasize one point. If there is any way in which the Farmer Cooperative Service can assist you through analysis of your problems, we will be happy to have you let us know. You have called on us three times in the past, and upon request we will be glad to respond again should you need our services.

I wish you every success in the years ahead.

CHALLENGES OF THE FUTURE FOR FARMER COOPERATIVES 1/

By Joseph G. Knapp, Administrator
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Washington, D. C.

The title given me for this talk is as big as all outdoors.

We know that the world is changing rapidly in many respects and that farmer cooperatives are going to have to adapt to these changes along with other forms of business enterprise. If we knew just what the future would look like ten years from now or twenty-five years from now we might be able to take better advantage of it. We see the trend toward bigness in business enterprise. We see the growing importance of mass means of communication. We see increasing mechanization and increasing application of scientific knowledge. We not only see all of these things but we are caught up and are part of them.

Let's not forget that we have been going through a period of great change in the last twenty-five years, and that during this period of change cooperatives have been able to perform a vital service for farmers. The conditions of the past twenty years have not overwhelmed the cooperatives but rather have shown the need for them. I doubt whether the changes ahead in the next twenty years will be any more severe than those cooperatives have met successfully in the past twenty.

Let's look at the record. Farm marketing and purchasing cooperatives have come a long way in the past twenty years since the national survey of 1936. Volume of business has increased over 4 times in marketing and 6 times in farm supply purchasing. Memberships have more than doubled. The equity of farmers in their cooperatives has grown from $288 million to $1 billion, 800 million, an increase of 528 per cent.

The size of cooperatives in terms of total and average volume has increased markedly although there has been some decrease in number of associations.

One of the most marked trends has been in horizontal and vertical integration. More associations have federated together and have carried their operations further, that is, they have carried on more operations between producer and consumer.

There has been a great improvement in management, business organization, financial structures, facilities and services, and membership understanding.

Farmers can look with a great deal of satisfaction on what they have accomplished through their cooperatives in terms of savings, in terms of services attained in the way they wanted them.

On the other hand, while cooperatives have taken great strides forward, they have little more than kept up with the pace. Business firms with whom they must deal have continuously grown in size and power.

Unfortunately, in our business economy, nothing stands still. Cooperatives may be strong in various industries today and be far behind tomorrow if they content themselves with their present methods.

1/ Notes for talk for 4th Annual Cooperative Conference, sponsored by the University of Kentucky and the Kentucky Cooperative Council, Lexington, Kentucky, March 11, 1957.

The principle that all savings are returned to the patron would mean little if some other business firm offered better service at lower prices.

We used to hear much about cooperatives as pace-setters. The term is well used when cooperatives are pace-setters. When they stop setting the pace they can no longer use the term. To be a pace-setter a cooperative must be out in front in quality of service and price. In some places cooperatives are setting the pace and in others, I am sorry to say, they are not.

What limits cooperative growth?

I heard a prominent business man say not long ago that the cooperative idea was so good that it was surprising that it was not the dominant form of business organization.

There is nothing wrong with the cooperative idea. Then why has it not become more widespread?

1. Some would say -- "Improve management," a word that is supposed to have a magical effect. Employ better managers, pay them more, etc., and all of your troubles will be solved.

2. Some would say -- "Get membership understanding," on the grounds that if you have loyal understanding members your problems are taken care of.

3. Others would say -- "What you need most are better boards of directors," the kind of men who could really direct the affairs of the organization and employ the right kind of manager and stop all monkeybusiness.

4. Then there are those who say -- "The principal weakness lies in their lack of adequate research." Research is also a magical word which means a great many different things to a great many people.

I know that you know that I am not critical of the importance of any of the elements that I have just mentioned. They are all important but they are not self-important. To have a first-class football team you need more than a good end and a good quarterback.

What kind of cooperatives must we have in the future? What will the job be? What values do we want from the cooperatives?

One thing we can be sure of. We are going to have larger more scattered farms, and the standards of technical and scientific knowledge are going to be greater. The kind of people on them are going to be better educated, better financed. Farming is going to be increasingly specialized, and be more and more a major business enterprise, -- although I do not think that this is going to mean that the pleasures of farm life are going to be destroyed.

If we look forward to this kind of farm unit we must consider what kind of farm business organization we need to service these farm units. Will we need more big cooperatives? I think the answer is yes.

Then the question is -- can we develop the kind of big cooperatives that we need from what we now have? Again, I think the answer is yes, but we must do a lot of retailoring and a lot of replanning of our existing cooperative structures.

We can all agree upon the need for something and still not get it. Whether we are going to have leaders, the cooperative architects to build the kinds of cooperatives that will help develop the kind of rural civilization that we would like is the big question. How do we get them?

Advantages of bigness can be obtained through cooperatives as well as by other business firms but to build a big cooperative is a little different kind of job than to build another kind of big business. To maintain cooperative spirit with big business is also a job.

How are we going to get the kind of cooperatives that today's times demand? Off hand, I would say:

1. First, we must have an understanding of what is needed.

2. We must have a willingness for change.

3. Then we must set up machinery to study the problem -- to see what can be worked out.

4. Then we must have a spark of leadership to fuse the elements of the old organizations together into new forms.

5. We must have management teams that can effectively operate the new organizations.

Take the problem of vertical integration in the broiler industry. If carried to its logical conclusion the producers would become hired men for the feed companies. Is this the kind of agriculture we want? Is it desirable in the long-time national interest?

You may answer no to both questions and yet not be able to stop it without a better vertically integrated program.

A cooperative is a vertically operated business to begin with in that the farmer gets the primary benefits from the system. The only thing different is that the farm is the integrating factor. All the marketing functions from producer to consumer can be performed by a cooperative as well as, or better than, by any other type of firm.

A lot of people have recently been reading William H. Whyte, Jr.'s book, "The Organization Man." Whyte's thesis is that people are losing their individuality and becoming conformists. What is good for the organization is good for them. He urges people to resist the organization -- to dare to be different.

By the token that people tend to be organization-minded -- if they get the cooperative idea -- they will become cooperative organization-minded. I have seen this process at work over the years -- and I assure you it works. This gives much promise for cooperatives.

THE CONTRIBUTIONS AND ACCOMPLISHMENTS OF THE FARMER COOPERATIVE SERVICE 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

My colleagues and I greatly appreciate this invitation to tell of our services to agriculture.

The work of the Farmer Cooperative Service dates back to 1913 when Congress appropriated $50,000 to help farmers on their cooperative problems.

Studies were made to help farmers organize, develop accounting systems, handle patronage refunds, and meet management and membership problems. We began to gather statistics on farmer cooperatives in 1914. Prior to that time we were operating in the dark with regard to the extent and character of cooperation in the United States.

With the great burst of interest in cooperatives during the first World War as a means of mobilizing agriculture, the demand for help on farmer cooperative problems increased. Assistance was given such organizations as the Eastern States Farmers' Exchange and the Dairymen's League in establishing themselves.

In 1922 "Legal Phases of Cooperative Associations," by "Judge" L. S. Hulbert was issued. This bulletin has had great influence on the character of cooperative organization and development. It has been revised several times, and we are now revising it again.

Another early study of great influence was an analysis of the California Fruit Growers Exchange, by Andrew W. McKay and McKenzie Stevens. We have twice revised this bulletin.

When the Cooperative Marketing Act was passed in 1926, with the support of practically all agricultural and cooperative organizations, there were two schools of thought. One was led by Aaron Sapiro, who espoused price fixing and monopoly control by cooperatives. The other group looked upon cooperation as a way of doing an effective job of marketing and purchasing for farmers based upon their voluntary support and effective management. It was this latter group which is represented here tonight which supported the passage of the Cooperative Marketing Act of 1926. The formation of the American Institute of Cooperation in 1925 was also an expression of this latter group that sound cooperation can only be developed through research and educational measures.

1/ Notes for a talk at Dinner given by Executive Committee of the National Council of Farmer Cooperatives, in recognition of 30 years of work with farmer cooperatives under the Cooperative Marketing Act of 1926, Mayflower Hotel, Washington, D. C., April 2, 1957.

The Cooperative Marketing Act established the work of the Department of Agriculture with farm cooperatives on a permanent and constructive basis.

From 1926 to 1929, the Service devoted its attention to studies designed to strengthen the business character of cooperative associations. Many influential studies were made during this period.

In 1929 the work of the Service was transferred to the Federal Farm Board. During the next four years the Service helped set up the National Livestock Producers Association, the National Wool Marketing Corporation, and a number of other associations which are continuing to render effective service for farmers. The period from 1929 to 1933 can be characterized as a time of action. The emphasis was on building cooperatives rather than on research to determine how to build effective cooperatives.

The work of the Service was continued under the Farm Credit Administration from 1933 until the reorganization of 1953. During this period the Service reestablished its work in research and education. Of great value were the studies of cooperatives in different commodity fields and cooperative purchasing, and the educational bulletins developed jointly with the Office of Education for use of vocational teachers. These publications have been kept up to date through revision.

The Farmer Cooperative Service is proud of its contributions during World War II. It stopped all normal work and gave its full attention to helping cooperatives make maximum contributions to the war effort.

Following the war there was the problem of helping cooperatives readjust their operations. Research, which had been postponed for years, had to be reestablished.

During the Korean incident the Service again devoted its primary attention to how it could help the nation best meet an acute problem.

In the last five years the calls on the Service have been greater than they have ever been in the past, due to revolutionary changes in agriculture and the pressure of the price-cost squeeze.

During the thirty years since the Farmer Cooperative Service was established, we have had one single objective--to render maximum help to farmers in building effective cooperative organizations through research, service, and educational assistance.

It is difficult in a few minutes to account and evaluate the many accomplishments and contributions of the Farmer Cooperative Service and its antecedent organizations. In my judgment the achievements of agricultural cooperation in the United States cannot be divorced from the agency which has worked steadily to help farmers achieve them.

It is easy to forget the past in the pressures of the present. I think it proper to briefly record some of the things the Service has done that are woven into the very fabric of our cooperative pattern today.

1. To my mind, our greatest contribution over the years has been in research work. We could not render effective educational and advisory service on cooperative problems unless we first found the facts through research. Our research studies have covered practically all fields of cooperative activity.

2. Through advisory assistance the Service has helped thousands of cooperatives, large and small, to become successful organizations. I can think of few cooperatives that have not been benefited by research and advisory help of the Service at some time in their existence. Indirect help, given in the form of educational publications, conferences, consultations, talks, and other ways, has perhaps been of even more importance than direct assistance. The Farmer Cooperative Service has helped build a climate favorable to the development of effective cooperative organizations.

3. Over the years the Service has saved farmers millions of dollars by advising against unsound cooperative ventures. We have opposed unwise investments in cooperatives that could not satisfy an economic need and provide an effective service for farmers.

4. The Service has supplied a fund of educational materials which has been drawn on by county agents, vocational teachers, cooperatives, legislators, colleges, and the general public. Thus the work of the Service has been multiplied manyfold through the work of others who have used these materials.

5. The Farmer Cooperative Service has provided a reliable source of statistical information on cooperative development. Without authoritative statistics there would be a field day for those who would distort facts for ulterior motives.

6. There is another accomplishment of the Farmer Cooperative Service that may be of very significant importance in the long run. Since World War II, many underdeveloped nations have shown great interest in agricultural cooperation as a means of meeting their rural problems. We have been called upon by various Federal agencies for assistance in helping with the extension of good cooperative techniques to foreign countries. Thousands of foreign visitors who have come to this country on technical assistance programs have looked to the Farmer Cooperative Service for information, advice and guidance to see how cooperatives are set up and operated in the United States. Many of these people have gone back to influential positions in their home countries with some recognition of the democratic character of our cooperatives and of their applicability to their own needs.

7. The Service has done much to help other government agencies understand the way cooperatives work. In this connection I think of the many conferences that we had with the Treasury Department during the development of the original Form 990. The Treasury report, issued in 1947, on "The Taxation of Farmer Cooperatives," was generally accepted as a fair statement of the tax problem. Our relationships were such that we had an opportunity to review and suggest changes in the original draft before it was released. I am also very proud of the work we did during World War II which established with the Office of Price Administration the right of cooperatives to distribute patronage refunds to members. It took us two or three years and innumerable conferences to establish this principle.

8. The contributions of the Farmer Cooperative Service also show up in the contributions of other agencies. We have always worked closely with the land-grant colleges, the state departments of agriculture, banks for cooperatives and other public agencies in efforts to build and maintain effective farmer cooperatives. This was of deep interest to our former and beloved chief, Harold Hedges, who worked incessantly to build close working relationships with all agencies to further the effective development of cooperative organizations. Since we became the Farmer Cooperative Service in the Federal-States Relations group in the Department four years ago we have intensified our efforts to strengthen the good working relations that were already in existence.

In 1954, in collaboration with the American Institute of Cooperation, we called together representatives of the agricultural colleges for a national conference on research in agricultural cooperation. Mr. Brinkley gave us a fine talk on that occasion. The object of this conference was to build Federal-State teamwork in this field. From this conference has grown three regional conferences of the same type, and a fourth is scheduled for Midwestern colleges at Kansas State College in May. This program is revitalizing the interest of the agricultural colleges in research in agricultural cooperation and has been enthusiastically received by them.

We have not only carried on research work ourselves but we have encouraged and assisted the colleges and others to carry on research work. In this connection we regard of great importance the work that we have done in recent years to encourage cooperatives to do more research work themselves. Cooperatives are still lagging in research as compared with the organizations that they must compete with. We believe that they must greatly intensify their efforts in this field, and we are encouraging such activity.

We are concerned with getting the job done, not with doing all the work ourselves. To the extent that we can enlist the cooperation of other Federal and State agencies and the cooperatives themselves, the achievements of our Service can be maximized at the minimum of expense to the public. Much of the advisory service work that we do could be done by the state colleges with general advisory help from us, if they were equipped to handle it. We have encouraged the states to expand their extension and other personnel so that they could meet more of these requests. This would free us to make more general studies relating to important problems of cooperatives, and enable us to better meet our responsibilities as the national center for coordinating governmental research, advisory service and educational work with farmer cooperatives.

THE ROAD AHEAD FOR FARMER COOPERATIVES [1/]

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I don't know when I have been more challenged by a subject than the one assigned me. To my mind, it is the No. 1 subject of concern to farmer cooperatives today -- the road ahead. Certain questions come to mind:

Where are we on the road?

Where do we want to go?

What do we need to get there?

What dangers must we avoid?

When Mr. Doe asked me to give this talk, I gladly accepted, for I felt that this would give me an opportunity to really explore this vital subject.

One of the first things I did was to write to various cooperative friends in all parts of the country to get their viewpoints. I asked these questions:

1. What do cooperatives need most to assure progress on the road ahead?

2. Where are cooperatives most vulnerable to road hazards?

3. What road blocks must they anticipate and provide for?

4. Just how far down the road are farmer cooperatives going?

Most of the letters went to managers of various types of marketing and purchasing cooperatives--some large and some of medium size--but I also wrote to get the views of competent observers in the banks for cooperatives, the national farm and farmer cooperative organizations, the land-grant colleges, and of some whom I would classify as general farm philosophers.

The response amazed me. Almost everyone responded, and many with two or three-page letters. Don't let anyone tell you that there is no interest or vitality in agricultural cooperation.

1/ Notes for talk at Annual Stockholders Meeting of Springfield Bank for Cooperatives, Springfield, Massachusetts, August 8, 1957.

In this talk I will try to distill the ideas from these letters and focus their meaning for you. I won't identify individual views because if I quoted individuals I would have to quote each one to be fair. Moreover, some might not want their names or organizations identified with their views.

To me, these letters expressed one very important fact. There is great faith and hope in agricultural cooperation. If people were smug or apathetic they would not have responded so enthusiastically. Those who replied want farmer cooperatives to succeed and thrive. They recognize the problems but they also see the opportunities.

Now, what do these letters reveal?

They indicate that this is a time of change, of uncertainty. The status quo isn't good enough anymore.

They indicate that cooperative leaders are beginning to recognize the new situation confronting them. They are beginning to see what must be done if cooperatives are to thrive.

They indicate that cooperation is in a healthy state, for there was little defeatism shown in these letters. The problems are great but there was agreement that they can be met with courage, leadership and equanimity.

In my letter I especially desired to get the views of competent observers on this question: Where must cooperatives improve if they are going to make progress down the road?

As you can expect, there was no unanimity in the response--unless it was in the idea that cooperatives must become larger, stronger, better organized, better managed, and better financed if they are to make their maximum contribution to the wellbeing of agriculture.

Before proceeding to an analysis of these views let's get our road bearings.

It is commonplace to hear these days that agriculture is going through a revolution. Some call it an explosion. The facts bear this out. Farms are growing bigger and fewer. More capital and technical skill are required. The problems of marketing farm products and of purchasing farm supplies and services are becoming more complex. I could spend quite a lot of time laboring these points, but they are obvious to you.

These changes are not coming gradually. They are coming with a bang! The economic world that farmer cooperatives must live in is also one of dynamic change. Population is expanding rapidly. Technological advance, including automation, is continuous. Business firms serving farmers or buying from them are growing bigger and are increasing in efficiency and power. As one keen analyst phrases it, business today must "grow or die."

Can farmer cooperatives meet this test of "the survival of the fittest"?

Problems Ahead

What kind of a road do we see ahead for cooperatives? As one of the managers said, "We must know what the conditions are going to be in order to build the kind of cooperatives we need."

There seems to be quite general agreement on two things--that the road ahead will be rough and that it will be unpredictable. One manager expresses it this way:

> "The road ahead will be rough. Agriculture now faces new problems not before experienced. We do not know where the treacherous road will lead. We must be prepared for any emergency. Tomorrow may be too late. We see a continued spiral of increasing costs. Margins will be increasingly narrower. Size of business probably will increase. Production trends are toward larger units. Methods are undergoing radical change. It is going to be a different world."

Many of my correspondents emphasized the need of cooperatives keeping in step with technological developments affecting agriculture. The following excerpts from the letters state more precisely some of the immediate practical problems confronting cooperatives:

* "How can we redesign our programs to attract more farmer participation while farms become fewer and larger?"

* "Can we continue our one-price policy? Can we afford to let the big farmer with his big volume go to our private competitor?"

* "I am all out for farmer cooperatives developing sound manufacturing programs that not only provide a market for their farm products but also provide needed farm supplies at a material saving in cost."

* "I watch with alarm the constant absorption by larger firms of the small dealers in the milk business and, for that matter, in all other businesses."

* "We are faced with larger buying units and changing methods of physically handling farm products. This requires changes such as consumer prepackaging. I think it also points up the need of larger cooperative effort in order to meet the requirements of large buying organizations."

* "It's going to be more important for cooperatives to extend their sales promotion efforts through to retail outlets with the trend for foods to reach the consumer in some form of package under a printed label."

* "Marketing cooperatives have much at stake in the area of private brands vs. national brands. In some regions a major food chain can make or break the market. Cooperatives have an interest in this problem."

* "We are constantly faced with increased competition not only in quantity but in quality."

* "Have we reached a point of stagnation with cooperatives handling about 20 to 25 percent of farm products entering in marketing channels?

* "My fear is that cooperatives will not know enough about their markets in the period of rapid change which lies ahead and accordingly they may become a part of the farmer's problem rather than an answer to it."

These views point up problems which indicate that farmer cooperatives can no longer take for granted continuous smooth sailing on the road ahead. Complacency can no longer be tolerated. The signs of danger are mounting and becoming obvious to all who are alert to see, and care must be taken to avoid impending trouble.

What Must Cooperatives Do?

My main concern in this talk is to focus attention on things that cooperatives must do if they are to make their maximum contribution. I can't cover everything so I will concentrate on eight points of strategic importance. These points tie together for there is no one short cut to cooperative success.

1. Cooperatives Must Become Larger and Stronger

I don't think that anyone here will deny my statement that cooperatives must become larger and stronger. I do not wish to emphasize size for the sake of size alone. I am concerned that cooperatives be large enough to operate efficiently under modern economic and agricultural conditions. We have many strong large cooperatives which are demonstrating the advantages of size. We have many small cooperatives which are struggling for survival.

Practically all of the letters emphasized the need of cooperatives growing larger, either through expansion or through federation or better coordination with other cooperative organizations.

Let me give you some of the views expressed:

* "Cooperatives must meet bigness in business with bigness in their own organizations."

* "The pressure is on to form giants in all fields today. No cooperative can stand alone today."

* "We need larger and fewer cooperatives, carrying more total tonnage."

* "We believe there is a trend toward larger cooperatives with the squeezing out of small individual local cooperatives."

* "The American farm is becoming larger. The cooperative, itself, must become larger."

* "I definitely feel that we must grow bigger, faster than at any time in our history if we are going to be able to compete with giants in industry."

* "Smaller cooperatives must be regrouped for strength."

* "If cooperatives find ways of extending their services both horizontally and vertically the outlook is quite profitable."

* "Sound business economics dictates that small cooperatives simply cannot play a 'lone wolf game' much longer. Even the big regionals will eventually face the need for integration. ... Through integration, farm cooperatives must do for agriculture what Dupont and the like are doing for industry in general."

* "If they are to continue as pacesetters cooperatives will need to take a bold, new look at the possibilities of integration. This may mean that no cooperative can do the job alone. My real concern is that cooperatives will think tall enough to get the job done. Educational support will be necessary to keep the growers behind the program."

The challenge to cooperatives today is to meet bigness at a comparable level, with the farmer's interest being given first consideration. Now what do I mean by "comparable level?" The cooperative must have the tools--sufficient capital and facilities--but, most important, personnel comparable to the best employed in industry and business. I believe this is the formula required.

While we are thinking about bigness I think we should also keep in mind the danger of over-emphasis. The biggest organization or the biggest individual is not necessarily the best. There are many small cooperatives in the United States that are big in a local sense, which are doing an excellent job for their farmer members. The manager of one of these writes me:

"I am afraid many cooperatives have been so interested in growing big and bigger that the prime objective has been lost sight of and they have become just another commercial business."

It would be a tragedy indeed if cooperatives were to grow big at the expense of their cooperative character. It should be possible to gain for cooperatives the advantages of large-scale operations while keeping them geared and responsive to the needs of the farmers they serve.

Before passing on to my second point I would like to discuss briefly a topic we have been hearing a lot about -- vertical integration. The idea is not new, but it has recently been given a new emphasis in agriculture by the expansion of contract deals for broilers, pigs, eggs and other commodities. When one firm performs various steps in the route from production to consumption all under one control it is vertically integrated. If the process starts with the producer and moves toward the consumer we call it integrating forward. If it starts with a mass distributor and moves back toward the producer we call it integrating backward.

The major petroleum companies have long been prize examples of vertical integration in that they perform all the functions from producing the oil to direct sale to consumers. It is also of interest that our petroleum cooperatives found it essential to integrate vertically to survive and they have done so with marked success.

All farmer cooperatives represent some degree of vertical integration for a simple local association performs a function beyond the power of individual farmers. A federation carries the process further, and so on. Our major cooperatives represent quite a degree of vertical integration--both in marketing and purchasing.

Cooperatives, like other firms, also employ the process of horizontal integration. This is where various business units of the same type join together--either by merger or other means--to perform given functions better, or increase bargaining power. Our cooperative federations are thus also examples of horizontal integration. These two forms of integration--vertical and horizontal--frequently go hand-in-hand, for horizontal integration often leads to more vertical integration, or vice versa. For example, the local oil co-ops had to set up strong federations before they could develop the capital and market to support a refinery, and when a refinery is set up it may need more locals to support it.

Integration is an economic process. It can be used by any form of enterprise--cooperative or not. If farmers do not use the process to integrate horizontally and forward, they will find the process being used by the businesses that serve farmers, and they will become pawns in the process rather than its prime movers.

This is what John H. Davis is telling us in his new book on Agribusiness. This book is important, for it recognizes what is going on in agriculture. Farmers can no longer consider agriculture one thing and business another. In his book, Davis maintains and shows that they are interrelated. Farmers are in an integrated world that they can't escape any more than they can avoid the laws of supply and demand.

But they can do something about it. Farmers are in position through their cooperatives to employ or control the integration process as well as anyone else, if they set their minds and wills to it.

A good case can be made that the failure of farmer marketing cooperatives to provide broad integrative services has led or is leading to their provision by other firms. I have no fear that strong integrated marketing cooperatives will not be able to meet the competition of integration in the broiler, egg, livestock, fruits and vegetable and other industries. But I do fear that small, non-integrated cooperatives will not be able to meet such competition. These small cooperatives must integrate or be integrated. There is no alternative.

It is tilting at a windmill to try to stop the process of integration by words. It is a process that farmers must control if they are not to be controlled by it.

I was very much interested in the statement by the late Addison L. Clark of the Eastern States Farmers' Exchange in the July issue of the Eastern States Cooperator on the question of poultry integration. At the end of his talk he asked two very important questions:

1. Are you subsidizing your competitor or are you supporting your own organizations which in earlier days of similar stress you worked so hard to create?

2. Are not organizations, properly guided and properly used, a solution to part of the difficulties you face today?

2. Cooperatives Must Improve the Quality of their Management

In emphasizing the importance of management I do not wish to minimize the great improvements that have been taking place in cooperative management during the last five years. We now have many excellently managed cooperatives but, by and large, much remains to be done in improving management of farmer cooperatives of all types in all areas. When I use the term "management" I am not thinking entirely of the general manager but I am thinking of the whole management team, including the board of directors. However, for practical purposes here I am referring to the manager and the key employees who perform management functions under the direction of the board of directors. They are, as we say, the paid or hired management.

Going back to my letters of inquiry to cooperative leaders, I was very much impressed by some of the comments I received with regard to the need of improving management. Let me read some of them to you:

* "Farm cooperatives are not fully competitive in the management field. We do not sustain competent management staff from stem to stern as our large competitors do. We must establish a business system that will attract and hold top young men. Money in itself is not the answer. We need a proper balance between ideals, incentive and opportunity for the individual to advance to the utmost of his ability in the cooperative field."

* "Cooperatives must have effective management. Salaries and wages must be kept in line. More attention must be given to training. It seems to me that cooperatives grow faster than do the managers and I am afraid not enough emphasis is being given to in-training for key positions. Cooperatives will not be able to grow and weather the storms ahead unless they are able to develop more able management which of course involves salaries. We need more aggressive, capable leadership, and we will not get it without paying salaries to get the kind of men needed to match wits with the corporate competitor."

* "We believe that cooperatives will survive only to the extent that they are willing and able to employ top quality personnel, particularly at the management level. The growth of many of our cooperatives and, in fact, their entire future, seems to be limited by the caliber of the management."

* "We must recognize the true value of professional management, plan for it and be willing to pay for it. Cooperatives are 'dead ducks' without doing so. Let's take advantage of the experiences of general industry."

* "I don't think too much emphasis can be placed on the necessity for qualified management. Cooperatives will have to be in line with industry. It takes good management to advise the board on everyday problems and carry out policies. The good corporations became so because of these combinations and they are made up of the same kind of people as in our cooperatives."

Several of the managers emphasized the need for management and employee training. The following expressions are typical:

* "Cooperatives, like other business organizations, are faced with the matter of employing and developing young and capable personnel. The competition for trained people is increasing and cooperatives must recognize the need of meeting this competition both by salaries and creating the proper environment for employees."

* "Cooperative managers and directors are going to have to be trained in all the new modern business techniques. I am thinking particularly about change. There is a great tendency for people generally, and particularly farmers, to do things in the old ways. The world is moving entirely too fast for that now. We not only are going to have to be willing to change but we are going to have to be anxious to change. If cooperative directors, cooperative management and cooperative members understand this thoroughly then it seems to me that they can be the leaders of the change rather than the followers."

* "One of the many problems of member education is that of the indifference of some farmers to the importance of good management.One must develop the attitude that the local co-op should be the best place in town. It won't be the best place unless membership is willing to hire the best available manager and pay him accordingly."

3. Cooperatives Must Improve the Quality and Performance of Boards of Directors

As cooperative organizations grow in size and scope they must have able and conscientious boards of directors. This is an essential to good management, for the board has the responsibility of setting the objectives of the business, selecting the manager, keeping control on decision-making by the manager and his staff, and accounting to the members and others on the way the business is run.

The performance of the board is a problem of growing concern to many cooperatives at the present time. Let me quote from some of the letters that I have received relative to this matter:

* "In my opinion, not every farmer member is eligible for board membership. We must devise a more sensitive selection process. A pre-service training program is needed as well as in-service development program. In short, our directors must become more semi-professional if our cooperative ideas are to continue."

* "I would like to comment on boards of directors policy. Too often, policy in a cooperative is some type of hazy, non-existent, loosely-worded conversation between board members and management."

* "Most cooperatives usually have boards of directors elected on a democratic basis with the result that some members of such boards are often not fully qualified to serve on a policy-making board. ... Too often, cooperative management must spend too much time keeping their board members happy and satisfied rather than spending such time on honest-to-goodness, long-range growth and policy development. Our competitors are not burdened to as great a degree."

* "Many boards of directors fail to assume their full share of responsibility. If the business is going good it is more or less neglected, with an attitude that management is doing a good job. If the business gets in trouble many board members do not have sufficient background to properly evaluate conditions and to act on sound business judgment."

* "A board of directors is as important as hired management to the success of any organization. Producer members do not always recognize the quality and management ability of people they select as directors. By the same token, directors do not always select management wisely, occasionally losing sight of the fact that a lower paid executive may prove to be their poorest investment. When it is established that people don't fit they must not be kept for sentimental reasons. Today's business is more and more 'dog-eat-dog' and, personally, I would rather eat than to be eaten."

* "I am inclined to think that the capabilities of the directors are setting limits to the potential growth of many cooperatives. Has the selection and training of directors kept pace with increasing growth and complexity of our cooperatives?"

* "The board of directors often presents a major limitation in growth, service, and development. As cooperative activity becomes more technical and more specialized I feel that the problem will become more aggravated."

* "One of the most important factors in the future of cooperatives is the quality of the boards of directors. Much will depend upon the ability of a cooperative to place on its board men who not only are sympathetic to agriculture but have business ability. They must understand the necessity to work together for the benefit of the community and have proper vision."

It is my own feeling that we haven't worked enough on this problem of building stronger boards of directors. We must find out how to get the kind of directors we need and how boards of directors can best function in the interests of the associations they represent.

We must always keep in mind the separate management functions of the manager and his staff and those of the board of directors. As R. A. Gordon expresses this in his book, Business Leadership in the Large Corporation:

> "Efficient business leadership for a large corporation must depend on an able, dynamic chief executive, supported by a competent staff adequately organized and directed. The Board's participation in decision-making consists of advice, not interference."

You will note that Gordon holds that leadership must come from the chief executive--the manager.

The manager is like the captain of a ship. He is responsible for getting his ship to its destination, for cargo, passengers and crew. The responsibility for leadership is vested in him and he can't escape it. But behind the captain is the policy of the owners he represents. He is not a law unto himself. He works under general direction.

Although leadership in a cooperative must come from the general manager many others have leadership opportunities and responsibilities. I don't feel that we can say to the general manager, "You alone are responsible for leadership." If he has the real spirit of leadership he will encourage directors, managers and employees to display it also. The field for leadership should be unlimited.

4. Cooperatives Must Develop Greater Financial Strength

If cooperatives are going to grow larger to meet present day needs they are going to have to develop more capital. This capital must largely come from the members. They must face up to the fact that no one else will supply most of the capital they need. They must be taught to realize that they cannot expect their organizations to give them the kind of services and values that they want if they starve their organization financially. I am glad to say that many cooperatives have learned this lesson, but I regret to say that there are many others who are "expecting a boy to do a man's work."

Let me give you some of the views that I got from the letters:

* "New and expanded services will require a steady flow of new capital. We must recognize that each year we end up with fewer farmers. It may become more difficult to raise sufficient capital from the farmers themselves unless we do an excellent job of educating the farmer as to how necessary it is for his cooperative to grow and become bigger. I don't believe we have yet fully tapped the farmer's imagination into seeing the value of investing his money in his local farmer cooperative which, in turn, may invest in a regional wholesale which, in turn, may invest large sums of money in regional or national manufacturing, processing and refining organizations."

* "In an effort to de-emphasize the importance of the dollar, members have been led to believe only nominal contributions were necessary. Perhaps it would be desirable to encourage members to think more in total returns in relation to their investment in the cooperative the same as they do for other investments."

* "The farmer cooperative is a business and as a business should be adequately capitalized. It appears to me that the farmers now are able to make investments and they should be challenged to adequately capitalize their organizations."

* "If cooperatives are going to be larger and stronger they are going to have to have more capital. One way or another, that capital will have to come from the members. Getting the members to recognize and accept the responsibility which they have in providing this capital is a difficult job, and one that is not being successfully met by many of our cooperatives."

* "It is axiomatic that a strong financial position is desirable if not completely necessary ... Cooperatives have been prone to set aside only minimum operating capital. Statements I have seen of business corporations indicate that large reserves are being set aside. If times get tough these reserves will certainly be useful."

* "I think that the greatest need of our cooperatives is to well capitalize their organizations and have plenty of working capital to carry on in order to enable them to meet hard times. While loyalty is very important, about the only way to have that loyalty is to be adequately financed and render a service justifying loyalty on the part of members."

* "Inefficient management and inadequate working capital are the two principal causes of failure among cooperatives and they are often found together."

5. Farmer Cooperatives Must Catch Up in the Use of Research

Cooperatives are far behind their corporate cousins in the field of research. There are only a few cooperatives in the United States which have a research program worthy of the name. In fact, there are still some cooperative managers who pride themselves on being practical men who know most of the answers. Since they have made little use of research they are inclined to view it with suspicion. I am afraid that this kind of thinking won't get a cooperative very far today. When American industry spends something like five billion dollars a year on research of all kinds there must be some value in it. Many of the letters expressed concern that farmer cooperatives were so weak in research and planning.

Let me quote a few statements bearing on this need:

* "Many cooperatives have no idea as to where they should be five years hence. They live from day to day and year to year. We ought to be looking ahead with some idea as to where we must be if we are to be effective agents of agriculture in 1965-70 and subsequent years. Here is where research could be of tremendous assistance."

* "Cooperatives are most vulnerable in their research programs. It is my pretty well considered opinion that in order to keep pace with or ahead of their competitors cooperatives will need to do more research in commodities and their use, economic trends, distribution and marketing patterns and in agriculture's changing conditions."

* "One of the greatest hazards facing us is the area of selection of the courses we are to follow. Past experience shows us that when we move into new fields that it's easy to do so without a proper analysis of the problems involved and some of the possible consequences. I think it behooves all of us to make a very careful study of any new ideas we may develop and enter into them on a sound and cautious basis."

* "The big problem presently is to keep the eyes of farmers on the ultimate objectives of farmer cooperatives. In view of the squeeze presently on farmers they are very prone to not look ahead but rather to evaluate each transaction on the basis of what's best for me today."

* "Cooperatives are all pretty weak in research and advertising. General business firms consider research and advertising expense as important as the expense for heating, office supplies, and labor. I am sorry to say most cooperatives do not view research and advertising in this light."

* "There is need for more research. The trial and error method will no longer suffice. Cooperatives must cooperate with public agencies in this area."

Another longtime friend of cooperatives sums it up by saying:

"Cooperatives are woefully weak in research."

These comments express the importance of the problem. Farmer cooperatives cannot be out of step in the use of research and let others set the pace.

6. Cooperatives Must Strengthen Their Membership Work

One of the distinctive things about a cooperative organization is that it is a membership organization. The organization belongs to the membership. This fact can give a cooperative great strength if members feel that the organization is theirs and responsive to their needs. Unfortunately, many cooperatives have neglected to make the most of their membership asset and as a result there are many members in cooperative organizations who feel no vital ties with their organizations.

Whose responsibility is the membership problem, anyway? Who is responsible for the attitude of members toward their organization? I am inclined to think that the development of a good membership program is the responsibility of the board of directors and the hired management. They are given the job of operating a cooperative in an efficient manner and it seems to me that part of their responsibility is to see to it that the members are satisfied. I believe that if one were to look around the country at those organizations with the best membership programs it would be clear that directors and the management staff took a responsibility for them.

Now, let me give you some of the comments that I received from managers and others bearing on this point:

* "One of our greatest responsibilities is to meet the challenge of having members understand the organization better and thereby strengthen the organization through more complete usage and also gain the advantage of having farmer members promote the association with their neighbors."

* "The strength of a cooperative rests on a foundation of membership loyalty and qualified management. Some members still cannot absorb the idea that they are the owners of this business. They still think that they are doing business with an independent broker."

* "Most of the problems narrow down to that of membership relations and understanding. We need to attract young members and get them to participate in the affairs of the association."

* "Cooperatives are going to be only as strong as are their membership relations. The best builders of sound membership relations are a worthwhile product or service, sound economical operation, and thirdly, cash patronage dividends -- refunds."

* "One of the problems that has been worrying me is that we do not have enough membership direction in the policies of the cooperatives, and there is entirely too much domination and control of the policies by employees."

* "A cooperative must maintain a membership program that will keep the membership informed of its activities and keep always the program of the cooperative on the road that is definitely for the benefit of the members. To a very large extent, our progress will depend on our success in keeping cooperatives cooperative and in the hands of the producers of the commodities which we handle."

* "I put patron education first among the road blocks among our problems. To the extent that this problem is handled wisely--if our members are well informed--this will eliminate merchandising and financial problems."

* "Members must understand the inner workings of an organization if they are going to provide the support that truly pacesetting activity requires. Do we know how to educate people in the need for integration, for example?"

* "If cooperatives are to meet the keener competition coming from competing companies they must increase their efficiency. This will call for a very strong cooperative educational program."

* "In our very complex business world the management function is far removed from farmer members. The job of transmission of information was never greater."

When I consider the above views in the light of the present situation I am convinced that we need to take a new look at the membership programs of farmer cooperatives rather than consider the membership program separated from any other part of the cooperative. Good membership relations are dependent on all around efficiency, good membership, good directors, but there are organizations that are good in almost every other respect that are not good in membership relations. They simply haven't worked at the job. They haven't considered it important enough. They think that the members should come to them rather than that they should go to the members. To my mind, from a cold business standpoint, there is no more productive dollar than the one that builds membership relations. Please don't get me wrong. A poor business organization could spend thousands of dollars on membership relations work which would be wasted. What I am trying to say is that a cooperative cannot overlook the importance of keeping their members behind them. As my colleague, John Heckman, says:

> "Cooperatives depend upon competitive efficiency and member understanding. With the first they can keep up. With the second they can set the pace."

7. Cooperatives Must Improve Their Public Relations

There is general agreement that farmer cooperatives must improve their public relations. No one knows just how this can be done but it is significant that the need is recognized, for recognition of need is the first step in the solution of any problem.

Let me quote from a few of the letters on this:

* "One of the greatest needs of farmer cooperatives, if not the greatest, is friends. We need friends who know the true objectives of cooperatives. This need is found among the members of cooperatives as well as those of other walks of life. We have, in general, done a terribly poor job of public relations."

* "There is an increasing amount of public misunderstanding respecting the importance of cooperatives in the solution of our agricultural problems. A very big job needs to be done in the field of public information."

* "Cooperatives must take into account in their public relations the subtle resistance to cooperatives that are being developed."

* "We still have too much 'mousiness' in our cooperatives. Farmer cooperatives can afford to provide the necessary finances for an aggressive member and public relations program simply to counteract anti-cooperative propaganda."

* "The word 'co-op' should mean quality and service, not the 'society of mistreated individuals fighting the evils of big business.'"

* "Cooperatives have failed to do a satisfactory job in public relations. Much of the present misunderstanding could be minimized through a more thorough public relations program. Cooperatives need to stress that they are an integral part of the free enterprise system."

* "Farmer cooperatives need to improve their 'prestige value' so more farmers will be proud to do business with them and so they will not need to fear reprisals from the general public."

I am not daunted by the so-called public relations problem of cooperatives. What concerns me more is the apathy of many cooperatives toward the problem. Cooperatives can build public and community respect if they set their minds and wills to it.

8. Farmer Cooperatives Must Learn How to Help Each Other More

It's not always necessary to be big. Two little guys teaming up together can often lick a big guy.

Farmer cooperatives can achieve many advantages of bigness through working together. Many of the letters stress this fact and call for more cooperation on the part of cooperatives themselves:

* "Cooperatives must continuously promote more inter-co-op activity."

* "The future will depend largely on the power of cooperatives as a group to work closely together."

* "Cooperatives should be able to work more together and they should be able to carry on more activities and services than they now do."

* "One of the weaknesses of farmer cooperatives today is that they are separated too much into commodity compartments without sufficient collaboration between such compartments. Should not the cooperatives be utilizing /their overhead/ institutions for carrying on applied research in commodity problems and inter-commodity problems.?"

* "Industry, distribution and labor are consolidating into larger and larger units. Cooperative leaders must forget differences and pride of local position and work effectively in the same direction if they are to hold or gain position in the economy."

So far, I have listed eight things that cooperatives must do to progress down the road. There are many other things they must do, but if they do these eight well, these other things will probably come too.

I haven't stressed operating efficiency, for good management and direction will insure that. The need for good organization structure might be mentioned, but this will come with good management and good research and planning. Many cooperatives are weak in accounting--especially cost accounting and in use of mechanical records systems. This weakness must of course be repaired to insure good management. The necessity for good communications between members and management is another thing to be stressed. This is, of course, essential to an effective membership program.

Many of the things that cooperatives must do if they are to forge ahead are the things that good cooperatives have always done. There is this difference in the present situation. In the past, a cooperative could get by with less than it takes to succeed today. The standards of performance have risen for cooperatives and for all firms serving farmers. There is a need for urgency--for tomorrow may be too late.

The Kind of Cooperative Vehicle Needed

In the letter I sent out to pick the brains of my friends I expressed the thought that if the cooperative vehicle was strong, durable and flexible it would make progress on the road even if the road should be tricky and rough.

This idea intrigued many of those who received the letter, and they have given me various ideas as to the type of cooperative vehicle needed.

Let us try to set up the Specifications for a Cooperative Which is "Going Places."

The "super de luxe cooperative model," according to one of my friends, will be "...larger, and there will be fewer cooperative vehicles, carrying more total tonnage--and perhaps carrying it further down the road."

The specifications must provide for capacity, flexibility, roadability, durability and economical operation. Can we leave out the importance of style? Do we need attractive cooperative places of business and facilities? Do cooperatives need to do things in a manner that will gain public respect?

Then there is the matter of power. Where do we get cooperative power? Do we get it from more efficient management? From membership support? or from membership capital? One of the letters expresses this thought:

> "If this vehicle of ours is to keep up, the fuel in the tank is to be compounded from basic ingredients, certainly including cooperative credit, with some additives to furnish extra pep, upper cylinder lubrication, etc. I have the feeling that the fuel of finance will play an increasingly larger role as production units increase in size."

Of course, the cooperative vehicle will need a sturdy and sensitive steering apparatus and we might compare this to an alert research department. What about the transmission? Perhaps this can be likened to an accounting system that discloses the facts. Tires? Perhaps we should think of them as informed member support. Lights, signals of various kinds? Perhaps that's where a good public relations department is needed to show us the way.

Of course, we are going to need plenty of oil for lubrication and an aggressive and enlightened advertising and information program can give us help on this.

If we are going to drive under crowded road conditions we will need insurance in the form of adequate financial reserves.

These are just a few of the ideas that were given me. Several also suggested that the new model cooperatives will need good drivers--the best to be got. And some called attention to the need for conservative drivers--men who will keep a close watch on credit and inventory. However, I think that when we say we need good drivers we mean that we need good managers, men who are trained and who like to drive.

It seems to me that if we have cooperative vehicles that are built with these features, we will make good progress down the road.

Eighteen months ago I gave a talk on the Challenge to Marketing Cooperatives. I then said that we needed a cooperative breakthrough. I maintained that too many cooperatives hadn't caught up with the times, let alone with the times to come. I believe this cooperative breakthrough is coming. There is evidence on every hand that cooperatives are recognizing the need for a change and are showing a willingness to make necessary changes.

Much remains to be done to make this breakthrough effective and it will call for continuing courage and willingness to face facts. It will call for leaders with vision and determination--men who can see the potentialities of farmer cooperatives--and men who can find ways of achieving them.

THE CHALLENGE OF CHANGE 1/

By Joseph G. Knapp, Administrator
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In the Washington Star of July 30, there was an interesting cartoon. At the top it showed an old box-type airplane, labeled, "1907," and underneath was the caption, "42 Miles Per Hour." Just below was a U. S. Air Force modern jet plane marked, "1957," and underneath were the words, "1300 Miles Per Hour - PLUS!"

At the very bottom of the cartoon was this question:

"...And ... in Another Fifty Years?"

That, ladies and gentlemen, is the challenge of change.

I greatly appreciate this opportunity to meet again with my friends in farm supply cooperatives. It gives me quite a thrill to recall the days not so long ago when farm supply cooperatives were looked upon largely as of sideline significance. Now the small boy has become a man, and farm supply cooperatives are one of the mainstays of the cooperative family.

In this talk I am not so much concerned with the adjustments taking place in agriculture and business as with the ability of farm supply cooperatives to cope with these changes. It is the challenge of change itself that I wish to emphasize. Can farm supply cooperatives adapt themselves and their services rapidly enough to meet the dynamic changes taking place which affect them?

The Situation

What are some of the changes coming along? Farms are growing larger and, as they expand, the capital investment per farm is increasing. On the other hand, as farms are combined to make larger units, the number of farms is decreasing while production per farm worker is increasing.

Farm management is becoming more and more a science of diversification and specialization. And aiding this development we have seen improvements in highways, irrigation, and farm equipment. This change isn't limited to size, techniques and material goods. The farmer himself is changing into a better informed, better educated man.

1/ Talk for Farm Production Supplies Meeting of American Institute of Cooperation, Colorado State University, Fort Collins, Colorado, August 20, 1957

Fortune Magazine for June 1955 carried an article entitled, The Magnificent Decline of U. S. Farming. This article predicted that in the next 25 years, or by 1980, the number of farms would decline from 5,200,000 to 4,300,000, while the population on farms would fall from 21,200,000 to 17,000,000. This article anticipated that the dynamic drive for efficiency would largely place farming on a production line basis and the author foresaw "the transformation of every general farmer into a highly capitalized, highly productive, specialized, prosperous professional entrepreneur."

This general view was given support by Dr. John D. Black's presidential address to the American Economic Association in December 1955. Dr. Black estimated that there would be about 4,000,000 farms in 1975. He went on to say, "At some time, not far off, possibly even a little before 1975, the rate of decline in number of farms is likely to slacken and then level off ... but a small increase in number of farms may set in before the year 2000."

I have given you a broad glimpse of agricultural change. Now, let's look at a few facts and consider what they mean to us in the farm supply field:

1. The average size of farm has increased about 29 percent since 1940 and is still expanding. This means that the size of individual farm supply purchases is on the increase. New purchasing patterns call for adjustment in merchandising and pricing methods and adoption of such practices as bulk feed delivery and bulk spreading of lime and fertilizer.

2. The number of tractors has doubled since 1940. With twice as many tractors, farmers require more petroleum, more farm machinery, and more mechanized equipment.

3. Most farms are now electrified, while only a third were in 1940. This brings a change in farm expenditures for farm and household equipment.

4. Irrigation is on the increase in all parts of the country. This calls for new services and equipment, plus technical information.

5. Towns and cities are moving into the country. In many areas around industrial centers non-farm outnumber farm residents. Many of these are part-time farmers. This changes nearby agriculture and calls for different ways of serving "rurban" people.

I am tempted to go on, but these few points indicate what is occurring and how it relates to farm supply service.

The competitive environment is also changing. Business firms handling farm supplies and those with which farm supply cooperatives must deal are growing larger and becoming more strongly integrated. These firms have greatly stepped up expenditures for research and advertising. They are alert to management improvement and all things that make for modern business efficiency.

If the cooperatives are to keep up with the procession they must also be just as alert and just as efficient, and they must demonstrate plus values if they are going to set the pace.

I recently attended a G.L.F. meeting where Ed Fallon, Assistant General Manager, listed ten problems coming from change. He diagnosed each problem and then pointed out how it presented an opportunity to the G.L.F.

For example, take the problem of knowing what the farmer wants and needs. On this he said:

> "Farmers are frustrated today. They want action, not routine. They want, and are getting from many companies, the special services they want for their specialized farms. Our opportunity is to get to know the individual farmer, then fit services and commodities to the farm."

Another problem is a lessening sense of membership and participation. On this he said:

> "To meet this will take new ideas. Employees should work with their key farmers and their young farmers. We should keep membership qualified. Our opportunity is to improve active participation and increase member use."

Then there is the problem of serving large farms. On this he said:

> "We used to operate on a community service system. Now, in some areas, service is more truly regional. What we are after is the least number of steps from manufacture to the farm, whether movement is directly from wholesale or directly from a retail point. Our opportunity is to develop a system to serve large farms, equal to the system we now have for the average farm."

Fallon's approach, to my mind, expresses the attitude we should take toward change. It's coming anyway, so let's make the best of it and make the changes work for us and not let them destroy us.

What is Cooking?

I have become increasingly change conscious since I started preparing for this talk, and I have read a lot of interesting books and articles which deal with the problem of adjustment to our times. This is the most striking problem in our lives today.

For example, the Kiplinger magazine which has the apt name, Changing Times, had a feature article in the June issue entitled, Look Twenty-Five Years Ahead! Great Changes are Coming.

It presented some startling ideas. By 1982 there will be a United States population of 250 million as compared with 170 million today; a world population of 4 billion as compared with 2.7 billion today; New York to Paris by air in two hours; three cars in every garage, and what cars; and all kinds of new devices and gadgets.

According to this article, a wonderful world lies ahead. However, there will be many problems. For example:

> "By 1982 the question of maintaining an adequate food supply with the resources available will be dominant. The land will begin to run out. Yields will begin to reach their maximum. The nation will have to fact the possibility of an inadequate food supply.
>
> "Bigness will characterize government, business and labor. ... The challenge will be to maintain industrial freedom while moderating group pressures."

The article ends with this question: "How will you fit in?" The answer given is worth repeating:

> "That is up to you. ... The thing to do now is to think and plan for what's ahead so that when 1982 arrives you will be prepared for its blessings."

One might go on and say, "What you do now may determine whether what arrives in 1982 will be a blessing."

Even more germane to our subject today is a book just out, The Next Hundred Years, by three professors at California Institute of Technology: Harrison Brown, Geochemist; James Bonner, Biochemist; and John Weir, Psychologist.

These men have been holding "a series of discussions with the chief executives of thirty of America's greatest industrial corporations to explore the future of the earth's natural resources in relation to man and his technology--in terms both of raw materials and products, and of manpower, brainpower, and processes." As the preface says, this book gives a "table-side seat at these high-level conferences."

This is quite a book, and I urge you to examine it. I am only going to say that the authors make the point that cooperation is a must in the world of tomorrow. Let me quote from the last chapter:

> "When we take the very long view of man's world in the next century we see that the main problems are less those of technology than they are those of men's getting along with other men, communicating with other men, and organizing themselves in such a way that their genius and imagination can be vigorously applied to the problems that confront them. Our major problems involve the enriching, enlarging, improving, and mobilizing of our intellectual forces."

How far ahead do you want to go? Ten years, twenty years, thirty years -- a hundred years? Most of us are limited in our interest in the future. We like to think that things will be easier when we are older, but we don't like to think that things will be harder.

As one writer has observed, "If we keep on doing what we are doing we will spend ourselves out of existence." He was referring to the wasteful use of resources -- not money which is only a measurement of them. What are we going to do if and when we run out of petroleum? How will this affect petroleum cooperatives? Will we go to atomic energy?

There is a cult in this country which holds that the future will look out for itself, that technical progress is so great that things not now discovered will be found to protect us in the future. So this attitude expresses itself in the view, "Why worry about more than today or the near future?" That may be a good way to enjoy life, but somebody has to think about the future.

Change can come in various ways. We may, as time goes on, prefer more leisure to more goods and services. If there should be this kind of change it would have a definite effect on economic institutions.

We may prefer different kinds of organizations to serve us if we come to the point of view that we would rather not live quite so hectically.

The present does not necessarily predict the future, although we can assume that the trends of the present will determine the future unless they are modified.

Cooperatives may or may not be in line with the changes of the future. If people want certain things and want to be served in certain ways, cooperatives cannot buck this trend. However, they can help direct the trend.

The important thing is how cooperatives adjust to new needs. This brings us to the importance of continuous innovation. Cooperatives must have built-in adaptability. They must give more emphasis to psychological research and to the development of organizational patterns in line with the times.

Other challenges arise from such things as new equipment, automation, and the growing need of technically trained men. Change calls for more than mere change. It calls for wise change--adjustment. Many changes are not particularly wanted and they may not be permanent. Madison Avenue public relations specialists claim that they can deliver conditioned people with six television programs--but will they stay sold?

I recently read that the most envied business slogan today is General Electric's "Progress is our most important product!." There are lots of ways one can define progress. Is it simply a matter of piling up goods and services, or is it a matter of developing more satisfactions for human beings? There is a difference between these two ideas.

Can Old Dogs Learn New Tricks?

Some of the questions that we must answer are: Can people change their ways? Can cooperatives adjust to the needs of the times?

There are always people who resist change, for this implies breaking habit-patterns. We grow to love our habits--as I, a pipe-smoker, know too well. Many of us are not opposed to change, but we don't want it to come too fast. We want to postpone action to see if the change is necessary. We have to become convinced, usually by outside circumstances, that we can no longer delay in making a change.

I think that all of us who have lived through the last twenty years know that we can do things differently if we have to. It is almost unbelievable how many new ideas we have accepted since the beginning of World War I. We have now become accustomed to the idea of man-made satellites and even a trip to the moon.

On the question--can old dogs learn new tricks?--there seems to be some evidence that they can if they have to, although anyone knows that it is easier to teach a young dog new tricks than an old one.

Recent anthropological studies also demonstrate that people can drastically change their ways. For example, people on South Pacific islands have moved recently from Stone Age to Air Age conditions. The implications of this experience, to all of us, are set forth by Margaret Mead in her recent book, New Lives for Old.

I think that evidence abounds on every hand that we can, as individuals, make great adjustments if they are to our advantage or if we have to make them. I remember a man who had a hard time changing from a Model T Ford to a gear-shift car, but he made the transition in his seventies. Look around you and you will see people doing things in ways that you would not have believed possible ten or fifteen years ago.

Whether we like it or not, change is here. What will 80 more million people do to our society by 1982? How will they affect highways and housing conditions, methods of farming, methods of marketing, problems of education, our relationships to each other, and all the other aspects of our lives?

It is not practicable to say -- these things are not going to affect "me" -- because they will. Anybody who is going to live another ten or twenty or thirty years is going to be affected. All of us are going to be affected through our children and our grandchildren.

What I am trying to do is bring out the idea that we must accept change, that we must look upon it as something that we have some control over. Changes are going to be worked out by people. In a democracy such as we have in the United States we have a great degree of control. Can we keep this control over change? This is not an academic question.

One of the principal preoccupations of major business concerns today is long-range planning. Many of these programs are built on the idea that such planning is not something that is done once and for all. Most authorities emphasize that long-range planning must be a continual or never-ending function. The old parts of the plan must be sloughed off as the plan is projected further and further into the future.

The recent meetings of the American Marketing Association dealt with Adaptive Behavior in Marketing. This theme recognized the way in which "specialized marketing institutions have responded or failed to respond to changes in the social and economic environment during the past decade." In this connection, I would like to call your attention to an exciting article by George L. Mehren, Chairman of the Department of Agricultural Economics, of the University of California, on The Changing Structure of the Food Market in the May issue of the Journal of Farm Economics. Mehren holds that "marketing has come to mean 'a systematic integration of product planning, procurement, manufacturing, and merchandising.'" This applies, as well, to marketing operations of purchasing cooperatives.

Mehren makes clear that agricultural producers and their cooperatives cannot ignore the sweeping changes that are affecting their industry. They can have power in the market but only if they are organized and alert.

Consider the fate of the dinosaur, the largest beast that ever lived--and dinosaurs once thrived right here in the vicinity of Fort Collins. Where are they now? Gone, except for the skeletons in museums. One interesting thing about dinosaurs is that they had exceedingly small brains. It is thought that the elevation of the great Rocky Mountain chain about sixty million years ago caused their extinction. The Encyclopedia explains the decline of dinosaurs in this way: "The dinosaurs whose habits of living and eating were very restricted could not stand the change."

Readiness for Change

We cannot make significant changes without first developing a state of readiness. It is a basic educational principle that learning will not take place until a child is ready--that is, prepared by other experiences for the new step. We can't teach a child to walk until he prepares for the step by crawling, standing up, and falling down until he can stand up. Then he is ready, and he walks. Unless there is a state of readiness, an attempt to get someone to accept a new idea or do something new will result only in frustration and a largely negative reaction.

The educational process is one of getting people ready or--in other words--of helping them reach a state where they will accept a new idea. This is why education is so important in building cooperatives. The members must be brought to a state of readiness if they are to accept and go along with new ideas. The same thing is true for directors and managers. We often hear of good ideas that were ahead of their time. We mean that people had not been brought to a state of readiness to accept the idea which was logical to the leader.

Changes are reflected in the actions of people. This leads to the thought that we must train people for change--to help them constructively to act differently than before. Changes can be planned so as to take into account basic principles that we wish to preserve.

Research and planning are the tools for making wise changes. We would not need research if we were determined to stand still. The five billion dollars spent by industry on research is explained by the importance of change. Innovation--almost a synonym for change--is now largely based on organized thinking and experiment.

Cooperatives must support research if they are to make wise adjustments or if they are to be innovators rather than followers.

Let's also consider the concept of leadership in its bearing on change. Leadership can hasten change. Cooperatives must have leaders who can look into the future and gain the support of others. Our great cooperatives today have been the result of great leadership. Without leaders, ideas are not carried into achievement.

When we think of change, as related to cooperatives, we must consider (1) the constant factors that have stood the test of time in the light of the changes that have occurred; and (2) the changes that we can anticipate.

It is significant that cooperatives have grown and expanded without significant sacrifice of basic principles. The so-called basic principles of cooperation--democratic control, the return of savings in proportion to participation, the payment of reasonable interest for capital--these are basic principles today as they were 100 years ago, and during this period we have witnessed the greatest period of change the world has ever known. If cooperative principles have stood this test of adaptability it would seem reasonable that they will be able to meet future tests, as long as we have the same kind of free society that we now enjoy.

What Needs to be Done?

There is abundant evidence that many farm people are waking up to the changes taking place which affect their industry and their lives. Iowa State College is establishing a Center for Agricultural Adjustment, "to coordinate and concentrate the research, teaching and extension resources of all departments on the problem which faces farm families and the agricultural industry. The problem is adjustment to economic growth." The Federal and State Extension Services are also emphasizing adjustment. The U. S. Department of Agriculture considers this a No. 1 problem.

Cooperative leaders must be in tune with this new emphasis. What other agencies have more potential usefulness for helping farmers adjust to new conditions than their own cooperatives?

Bill Dankers, Extension Economist of the University of Minnesota, dealt with this challenge in a recent talk which he called Cooperatives--1975. You will be interested in the kind of farm cooperatives that Bill sees twenty years from now. It's not a gloomy picture. He maintains that in 1975 cooperatives will be definitely larger, use more technology, and be different in organizational framework, and he emphasizes that the cooperatives of 1975 must be efficient and remain democratic. I concur 100 percent.

Let me close by emphasizing five points:

1. Cooperatives must shake off indifference to what is happening and get themselves in a state of readiness for necessary changes.

2. Cooperatives must grow in size. A business leader recently gave a talk entitled "Grow or Die." This applies to many farmer cooperatives.

3. Cooperatives must develop capacities for both short and long-term planning.

4. Cooperatives must search for leadership. New leaders must be on the assembly line.

5. Cooperatives must hold on to their basic virtues--democratic control and service at cost. These are not in conflict with real cooperative efficiency.

When our country was just coming into existence, men like Washington, Jefferson, Adams and Hamilton fortunately took a longer view than many about them. They were building a nation for the future, fortunately for us. We are still building that nation. It's the same job and the expression is as true today as down the ages, "Without vision the people perish." Cooperatives must take the long view too if they are going to have a real future or if they are going to have a real influence on the future.

PAST AND PRESENT WORK OF THE U.S.D.A.
WITH FARMER COOPERATIVES *

As a background for this discussion I wish to present a few charts to show the present status of farmer cooperatives in the United States.

Figure 1 shows the change in the number of marketing and purchasing cooperatives and in the number of memberships in these cooperatives since World War II. You will note that the number of cooperatives has slightly declined, while the memberships in cooperatives have appreciably increased. This results in an increase in memberships per cooperative, as shown on the chart.

Figure 2 shows the changes in net business volume for the five years 1950-51 to 1954-55--the last year for which we have complete statistics. You will note a slight increase in business volume for both marketing and purchasing cooperatives during this period. This is significant in that during this period there was a decline in the prices paid for products marketed by farmers and in the prices paid for supplies purchased by them. I would say that the farmer marketing and purchasing cooperatives have, as a group, more than held their own during this period.

Figures 3 and 4 give support to this statement.

The solid line on Figure 3 shows the changes in dollar volume of products cooperatively marketed from 1950-51 to 1954-55. The dotted line shows the volume adjusted to take into account changes in prices paid to farmers. The dotted line indicates the changes in volume of commodities actually handled by marketing cooperatives. In other words, the physical quantity of farm products cooperatively marketed increased more than dollar volume.

The solid line on Figure 4 shows the changes in dollar volume of supplies cooperatively purchased from 1950-51 to 1954-55. The dotted line adjusts these data to take into account changes in prices paid by farmers for supplies. It represents the changes in physical quantity of supplies handled by cooperatives.

Figure 5 shows the growth of farmers' ownership interest in farmer marketing and purchasing cooperatives from 1950 to 1954. In 1954 farmers had almost two billion dollars invested in their marketing and purchasing cooperatives. This represented 58 percent of the total assets of these cooperatives.

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* Prepared by Joseph G. Knapp, Administrator, Farmer Cooperative Service, September 1957.

Figure 6 shows how farmers acquired this equity interest--through purchase of stock, 15%; through authorized deductions for stock, 10%; and through refunds retained, 61%. The balance of about 14 percent represented combinations of these methods.

Figure 7 shows how these cooperatives distributed their net savings and margins in fiscal year 1954. The total was 275 million dollars. The amount of patronage refunds distributed either as cash or as allocated capital credits amounted to 238 million dollars. Comparing this figure to the amount of farmers' investment of $1.8 billion indicates that patronage returns in cash or revolving fund credits amounted to an average return of about 13% on the amount which farmers had invested.

Figure 8 shows the size of the farmer cooperatives in 1954. It will be noticed that only 5 percent do volumes of business over 3 million dollars annually. The great majority are relatively small businesses--although many are federated to obtain advantages of large business concerns.

Now let me briefly describe the past work of the Department with farmer cooperatives. It goes back almost to the formation of the Department, for the Department has always worked with farmers on their cooperative problems.

The real beginnings of sustained work by the Department with cooperatives came in 1913 when Congress appropriated funds to help farmers on their cooperative marketing and purchasing problems. This work was carried on for many years under the Bureau of Markets which later became the Bureau of Agricultural Economics.

In 1926 Congress passed the Cooperative Marketing Act which set up a Division of Cooperative Marketing in the Department to "give information, counsel, and guidance to farmers on cooperative marketing" -- to use the words of the then Secretary of Agriculture, W. M. Jardine.

This Division was transferred to the Federal Farm Board in 1929, and from 1933 to 1953 it was administered by the Farm Credit Administration. When the Farm Credit Administration became an independent agency in 1953 this Division was set up as a separate agency in the Federal-States relations group of Department agencies and given the name, "Farmer Cooperative Service." Thus the Farmer Cooperative Service continues a program of research, service and education for farmers on their cooperative problems which goes back to 1913.

While the research, service and educational work of the Department with farmer cooperatives is centered in the Farmer Cooperative Service, many other agencies of the Department have close working relations with farmer cooperatives.

The Federal and State Extension Services have worked closely with farmer cooperatives since the Smith-Lever Act was passed in 1914. County agents and subject-matter specialists of the Extension Service have contacts with farmer cooperatives in all parts of the nation. The work of the Extension Service is educational in character. Farmer Cooperative Service provides much of the information used by extension workers in their educational work with farmer cooperatives and with farmers in their relationships with cooperatives.

The Farm Credit Administration--now an independent agency, but closely related to the Department--supervises and coordinates a nationwide system of cooperatively organized agricultural credit institutions. Our recent cooperative finance study showed that the banks for cooperatives of the Farm Credit Administration finance 58 percent of the credit needs of the farmer cooperative marketing and purchasing associations. These banks have had a tremendous influence on the development of strong and effective farmer cooperatives since they were set up in 1933. Farmer Cooperative Service makes research studies and provides assistance and educational information of use to the banks for cooperatives in their work with farmer cooperatives.

The Rural Electrification Administration provides financial assistance to the rural electric cooperative associations which, in turn, serve a high percentage of farmers. Much educational information on cooperatives issued by the Farmer Cooperative Service is used by the rural electric associations.

The Forest Service has long had an interest in cooperatives, although there has not been a significant development of forest cooperatives in the United States. Since 1938 the Forest Service has worked closely with a forestry cooperative at Otsego, New York, which is endeavoring to provide a market for wood from farmers' woodlots. There are other similar cooperatives in Michigan and Connecticut. Recently, Farmer Cooperative Service has been working with representatives of the Forest Service to help farmers in Maryland, West Virginia, and Pennsylvania set up a pulp wood marketing cooperative.

The Agricultural Research Service has many contacts with farmer cooperatives although it has no direct responsibilities in the field. Many of the members of the commodity advisory committees are officers or members of farmer cooperatives. They are able to represent large numbers of farmers because of their cooperative relationships with other farmers.

The Regional Laboratories of the Utilization and Development Division of the Agricultural Research Service work very closely with farmer cooperatives. Many of the projects of the Regional Laboratories are carried on at the request of the cooperatives. For many years, the Farmer Cooperative Service and the Regional Laboratories at Peoria and New Orleans have jointly sponsored regional conferences of oilseeds cooperatives where technical and economic problems are discussed.

The Foreign Agricultural Service has close ties with farmer cooperatives which engage in foreign trade. The Agricultural Attaches in various foreign countries maintain contacts with cooperatives. For many years Farmer Cooperative Service has worked jointly with Foreign Agricultural Service on a project designed to further trade in agricultural products through cooperatives in other countries. This work has been very popular with American cooperatives and other firms engaged in foreign trade with cooperatives, and it is increasing in significance.

The Agricultural Marketing Service also works with many cooperatives. Much of its research work in marketing is of benefit to cooperatives, along with other firms. The Farmer Cooperative Service cooperates with the Marketing Research Division of the Agricultural Marketing Service, and carries on a number of Marketing research projects with funds made available by Agricultural Marketing Service under the Research and Marketing Act of 1946.

In its other programs the Agricultural Marketing Service has close relationships with cooperatives, especially in the administration of marketing agreements and orders for such products as milk and fruits and vegetables. It is recognized that these programs can be best administered when there are strong cooperative associations to represent a large proportion of the farmers covered.

Moreover, the Packer Stockyards Administration of the Agricultural Marketing Service has supervisory responsibilities related to livestock marketing cooperatives which operate on terminal and other posted markets.

The Commodity Exchange Authority has as one of its responsibilities -- "to insure the benefits of membership privileges on contract markets to cooperative associations of producers."

The Office of the General Counsel must deal with many legal problems relating to farmer cooperatives in connection with the agricultural programs carried on in the various agencies. The Farmer Cooperative Service, for a considerable period of years, has drawn upon the Office of the General Counsel for assistance on legal problems arising in its research, advisory service and educational programs. The quarterly Summary of Cooperative Cases, which is issued largely to attorneys and law schools by the Farmer Cooperative Service, is prepared by a staff member of the Office of the General Counsel.

Much of the work of the Department with cooperatives is no different from that of the Department with other agencies which serve farmers. As substantial enterprises engaged in agricultural business they come in contact with Departmental officials in all aspects of the Department's work.

We have a threefold responsibility in the Farmer Cooperative Service, as given us by the Congress.

1. To carry on research studies to help farmers build and maintain effective cooperative enterprises.

2. To render needed advisory assistance to farmer cooperatives, and to groups of farmers interested in forming cooperatives.

3. To increase the knowledge of sound principles and practices of cooperative organization and operation.

I would like to refer to a few of our current research projects to give you some idea of the problems involved.

At the request of the National Council of Farmer Cooperatives, we have been making a comprehensive study of the financing methods and problems of farmer cooperatives. This study is providing information of great value to the cooperatives and to the public. I have a first report on this study here.

We are carrying on a number of studies related to the problem of integration in marketing which is of so much concern to farmers today.

We are engaged in a broad study of the cooperative marketing of wool to help wool producers improve their marketing system.

We are starting a comprehensive study designed to assist regional cooperatives in strengthening their boards of directors. Many cooperatives have expressed a keen interest in this study.

While we are engaged on these and many similar broad research studies of general interest to farmer cooperatives, we are constantly called on for help on pressing problems. In fact, the calls on us for assistance have increased steadily during recent years due to the adjustments taking place in farming.

I am sure that you will be interested in the following recent requests for advisory assistance on which we are now working:

At the request of the Council of New England Egg Cooperatives and the Boards of Directors of 9 of the 12 New England egg marketing cooperatives, we are helping them determine how New England egg cooperatives might improve their markets, reduce costs and increase returns to New England egg and poultry producers.

At the request of the National Council of Farmer Cooperatives, American Farm Bureau Federation, the National Grange, and the National Farmers Union, we are cooperating with the Agricultural Marketing Service to determine the effect of a recent court decision on the transportation of fresh and frozen poultry, and frozen fruits and vegetables within the terms of the agricultural commodities exemption in Section 203 (b) (6) of the Motor Carrier Act. This work has high priority.

At the request of two regional supply associations in the North Central region we are analyzing the economic factors involved in possible merger of these associations. More efficient use of facilities and services could benefit many thousands of farmers.

We are working on a request by local elevators, transmitted through the Mississippi and Federal Extension Service to help determine the feasibility of setting up a terminal elevator to serve farmer-owned elevators in the Delta area of Arkansas, Louisiana, and Mississippi.

At the request of three Midwestern dairy cooperatives, we are studying the potential advantages obtainable from a coordinated sales program.

We are helping a dairy farmers association in Florida on an organization problem involving bylaw amendments and accounting procedures relating to the establishment, allocation and repayment of reserves to its members.

We have been requested to help in planning needed cooperative grain storage and marketing facilities in North and South Carolina.

We have been requested by a federation of cooperatives in Florida to make a systematic review of its membership program. We are doing this work in cooperation with the University of Florida. Preliminary information has been presented to the Board of Directors, and steps are being taken to put recommendations into effect.

At the request of the National Livestock Producers Association, we are making an examination and analysis of the corporate structure and the accounting procedures of one of its member agencies.

We are working on a request of several artificial breeding associations in New England to help them consolidate their operations so as to bring about a larger, stronger cooperative, capable of better meeting the needs of farmers.

Some of the above requests require collection and analysis of pertinent information, while a number can be met largely with available experience and data. It is our practice to obtain all possible cooperation from Federal and State agricultural agencies in meeting these requests. In many cases, the requests come to us through State officials and we, in effect, help them meet the requests. In many cases, experience in helping an association enables us to develop educational information to help many associations on the same type of problem. Our effectiveness in helping meet current calls for assistance largely depends upon our basic research studies which provide a background of research results and "know-how" that can be applied to help on current problems.

Our third, and equally important, responsibility is in education.

We issue many publications for educational purposes each year, based on our research and advisory work with cooperatives. Our educational magazine, the News for Farmer Cooperatives, provides current information on cooperative methods and principles for managers of cooperatives, State and Federal workers, vocational agricultural teachers, Extension and college personnel. We work through meetings and conferences with county agents, vocational teachers, State cooperative councils and others who are helping to develop more effective farmer cooperatives.

In our educational work we have given special attention to helping cooperatives improve their management. This has involved giving assistance in management and employee training programs, and preparation of special information for use in management development work. We have also worked closely with cooperatives, the American Institute of Cooperation, vocational teachers and others in educational programs designed to help farm boys and girls meet their future responsibilities as members of farmer cooperatives.

One of our functions that I consider indispensable to all of our work is the provision of nationwide statistics on marketing and purchasing cooperatives. Over 92 percent of the nearly ten thousand cooperatives voluntarily cooperate with us on this project and provide us with annual data on their memberships and business volume. These statistics are essential not only for our research, advisory and educational work but for that also carried on by State colleges, cooperatives and others. We would not have authoritative information on agricultural cooperatives except for this continuing effort.

It may interest you to know that some 340 representatives from 47 foreign countries visited our offices last year for information on American cooperatives, under various technical assistance programs. In many foreign countries, farmers are endeavoring to raise their standard of living by organizing cooperatives, and we consider any assistance we can give, based on lessons from our experience, of great value in improving better international relations.

I would like to make one final point with regard to our program. We are proud of our close working relationships with other agencies in the Department and other Federal agencies, as well as with all State agricultural agencies which have an interest in developing stronger farmer cooperatives. These relationships, built up over a long period of years, enable us to magnify the accomplishments of our relatively small staff. In this connection I would like to mention the regional conferences on research in agricultural cooperation which we have co-sponsored with the American Institute of Cooperation. These meetings are strengthening teamwork between the land-grant colleges and the Farmer Cooperative Service in working on research problems in the field of agricultural cooperation. Our next conference of this type will cover the Northeastern States and will be held at Pennsylvania State University, November 24-25.

FIGURE I

Number of Cooperatives and Memberships

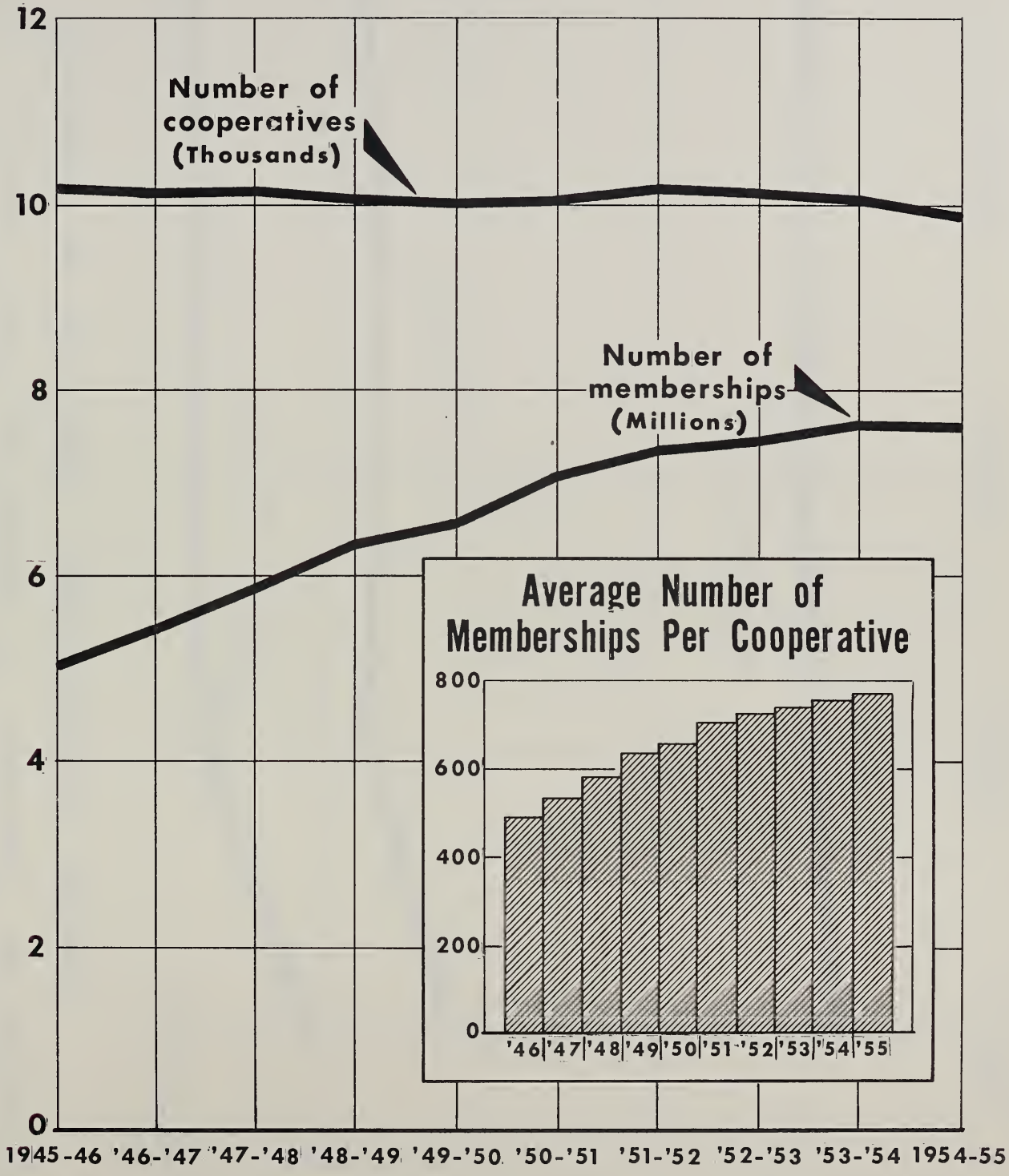
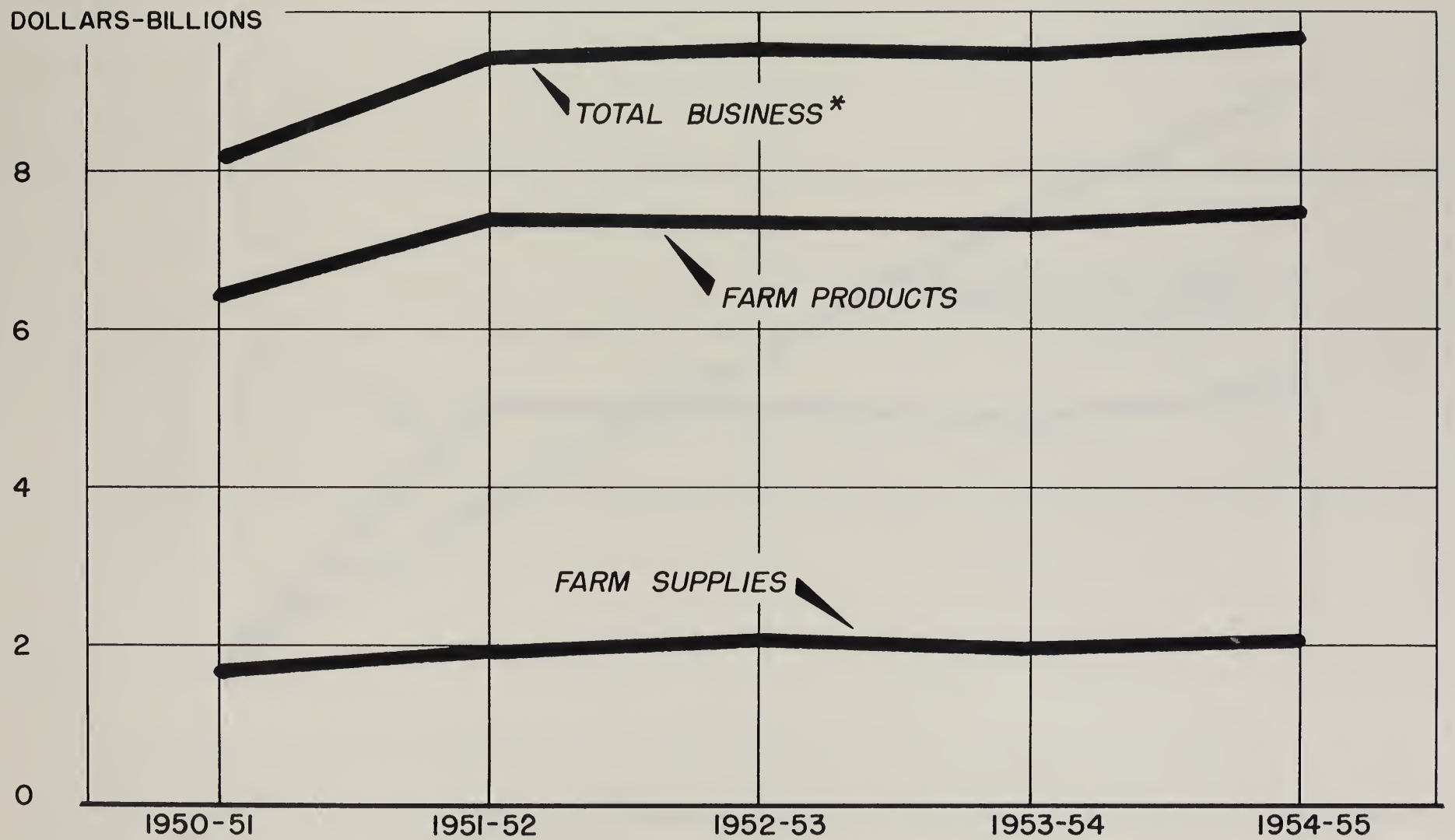


FIGURE 2

Estimated Net Business of Marketing, Farm Supply, and Related Service Cooperatives, 1950-51 to 1954-55



*INCLUDES RELATED SERVICES

FIGURE 3

Percentage Change in Net Value of Farm Products Marketed by Cooperatives, 1950-51 to 1954-55

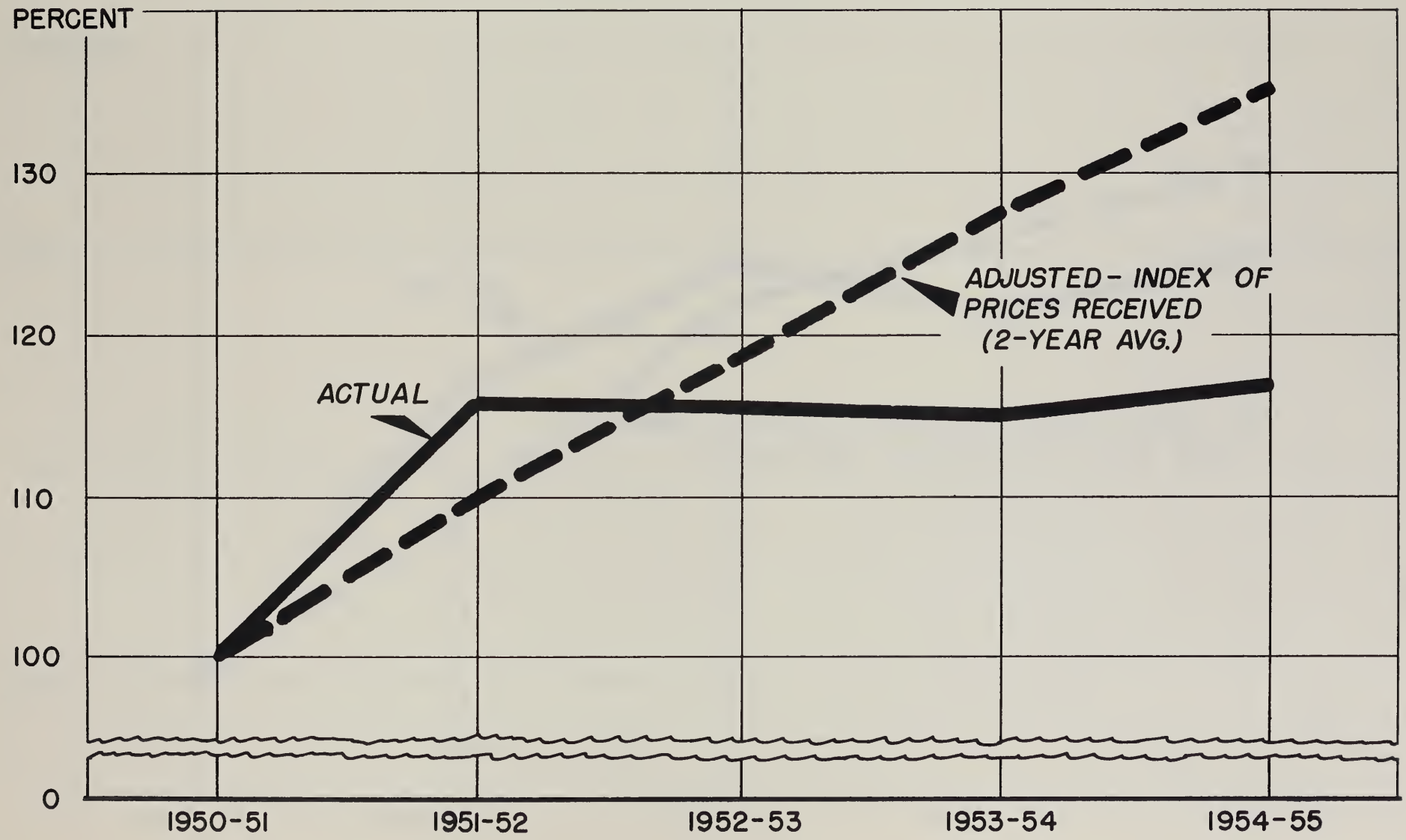


FIGURE 4

Percentage Change in Net Value of Farm Supplies Handled by Cooperatives, 1950-51 to 1954-55

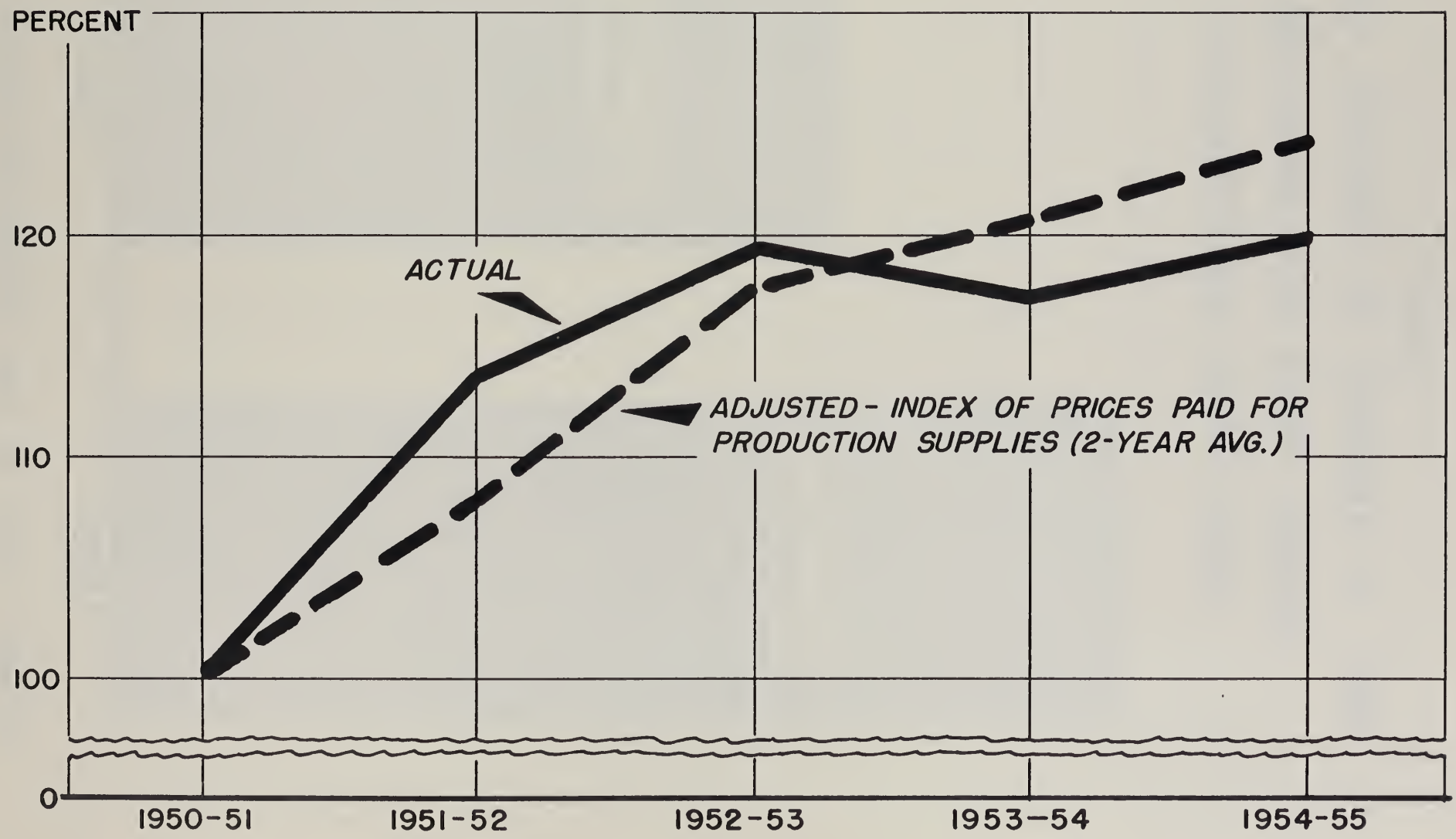
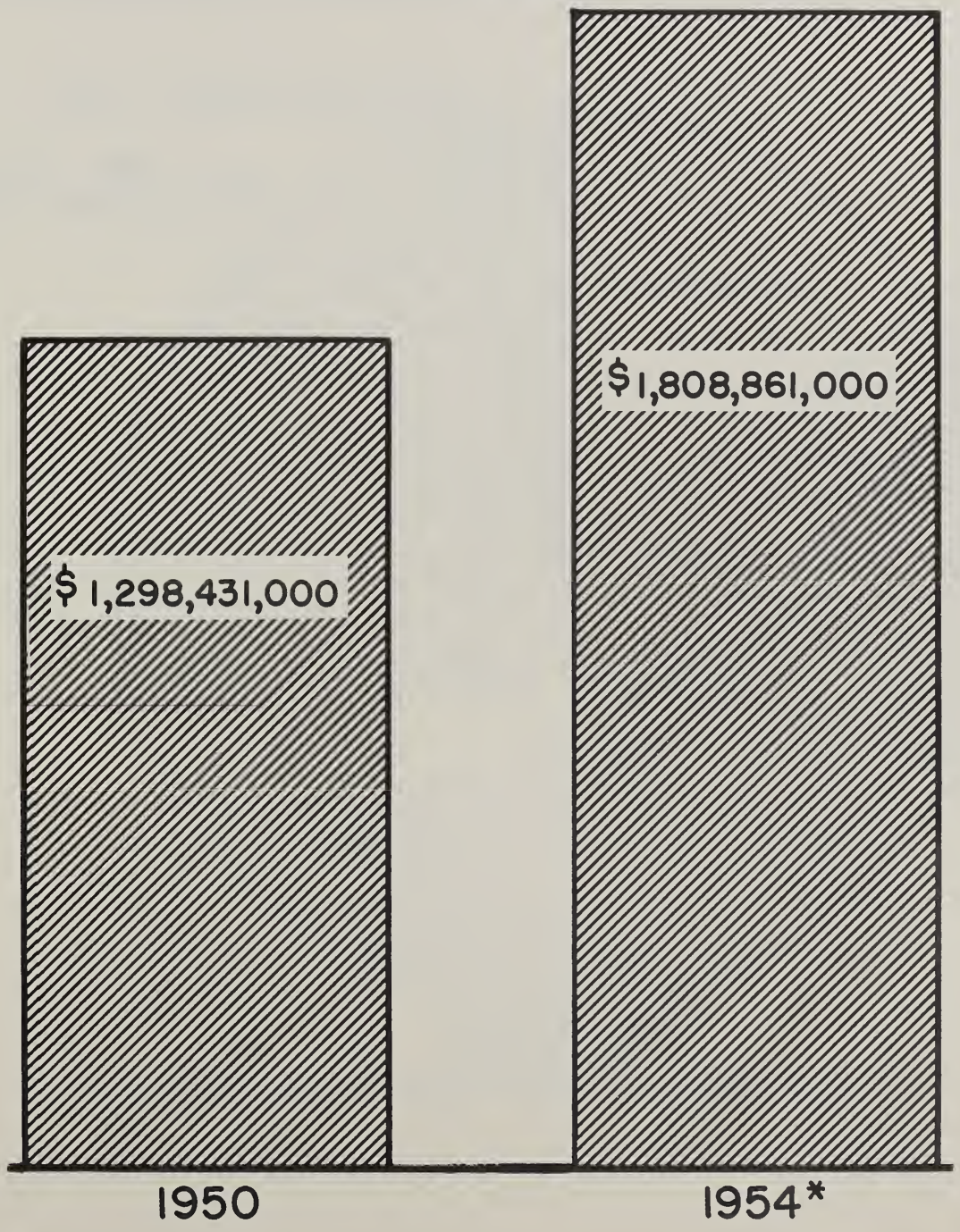


FIGURE 5

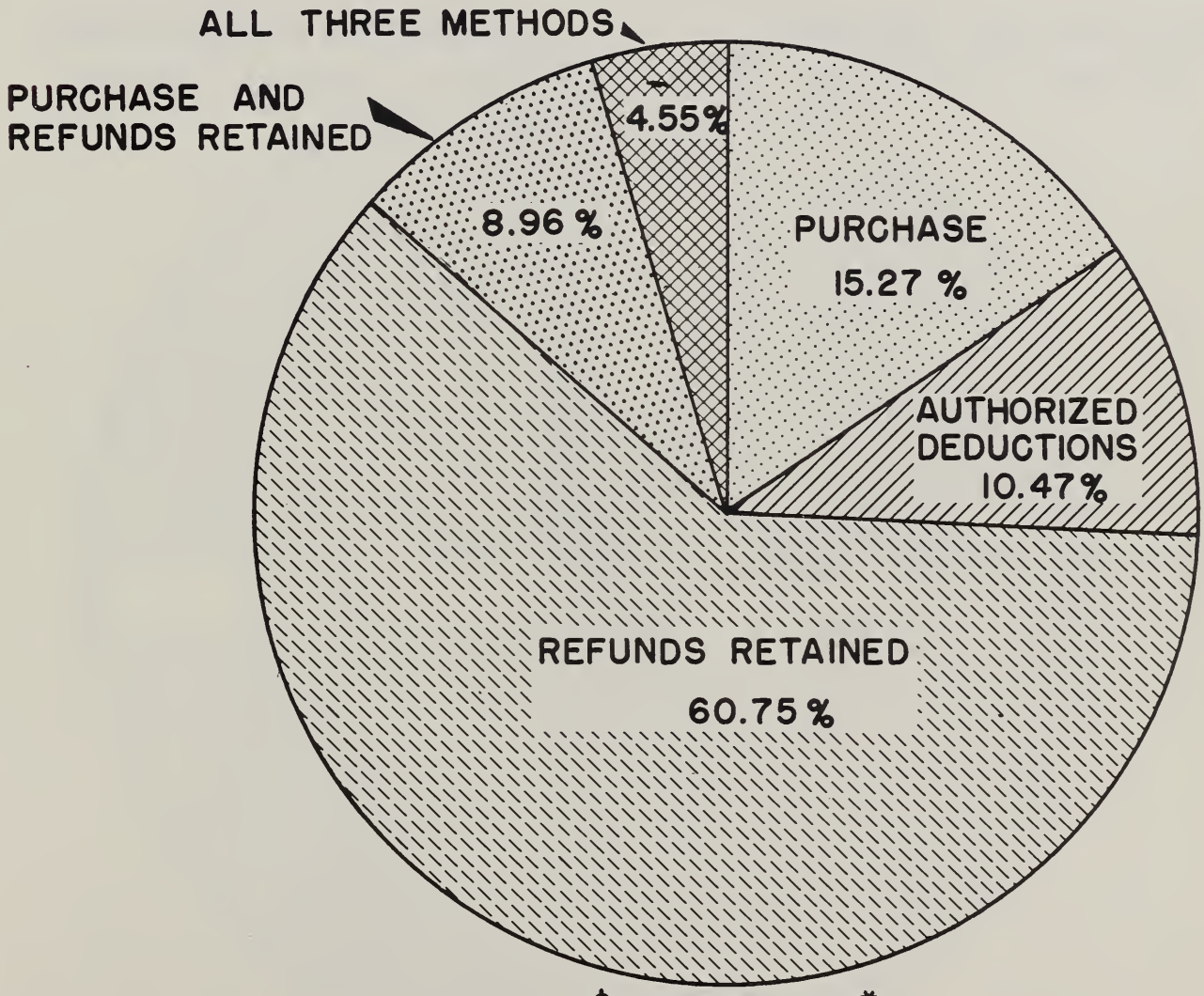
Equity Interest of Farmers in Their Marketing and Farm Supply Cooperatives, 1950-1954



*1954 FIGURE REPRESENTS 58 % OF TOTAL ASSETS.

FIGURE 6

Methods of Acquiring Equity Capital of Marketing and Purchasing Cooperatives, Fiscal Year 1954

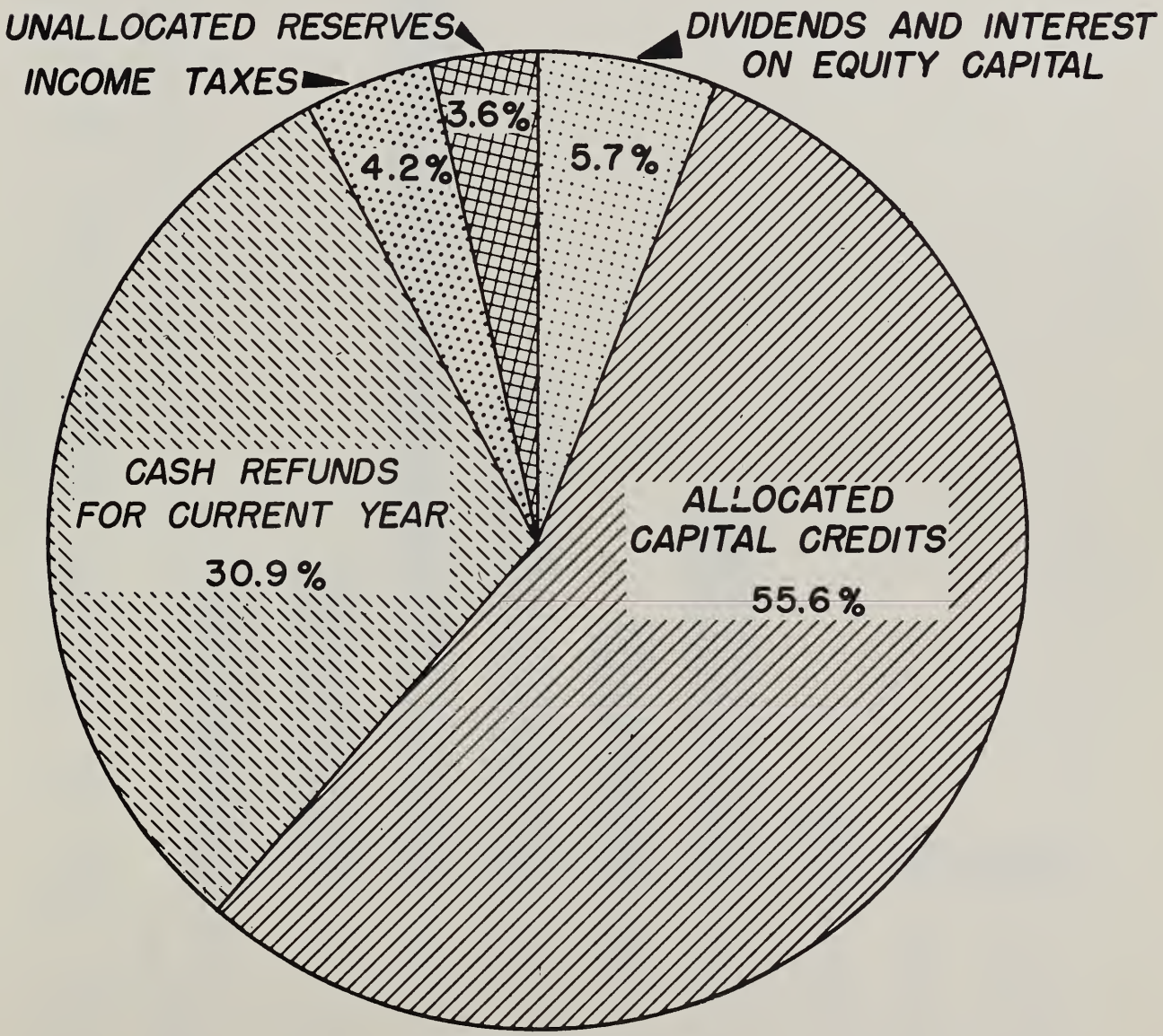


$1,808,861,000*

*AFTER ELIMINATION OF INTER-COOPERATIVE BUSINESS

FIGURE 7

Distribution of Net Savings and Margins of Farmer Cooperatives Fiscal Year 1954

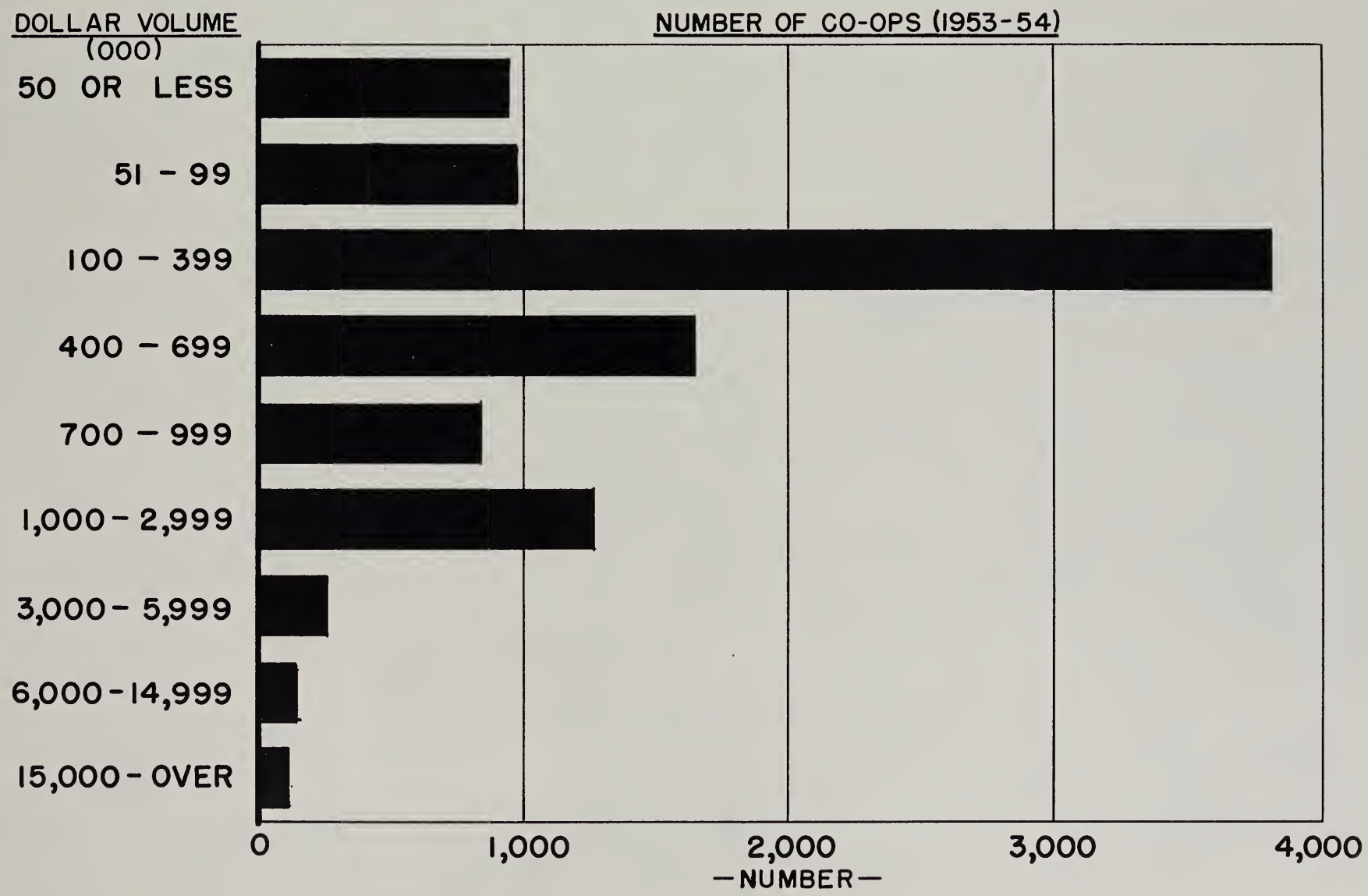


$ 275,000,000*

*AFTER ELIMINATION OF INTER-COOPERATIVE BUSINESS

FIGURE 8

Relative Size of Farmer Cooperatives by Dollar Volume



COOPERATIVES CAN SET THE PACE [1/]

By Joseph G. Knapp, Administrator
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I am challenged by the subject you have assigned me--"Cooperatives Set the Pace in These Changing Times." Do cooperatives set the pace in these changing times? If they don't they should, but that is another story. We might also say that some cooperatives are setting the pace while others are lagging behind. Just being a cooperative doesn't make a business into a pacesetter.

To be a pacesetter a cooperative has to be outstanding in its field. It has to be well-financed, well-organized, well-operated, well-managed, well-directed, and well-supported. It must be flexible and alert to change. It must be up on its toes, aggressive and confident in every respect.

Well, how do cooperatives measure up on this scale of values? I would say, "Pretty good," but "not good enough." In fact, I doubt whether I would ever say "Good enough," for I think that no business, and particularly a cooperative, can indulge in complacency.

I recently developed a talk on "The Road Ahead for Farmer Cooperatives." To get my facts right I wrote to about one hundred cooperative leaders in all parts of the country to find out how cooperatives were faring--whether they were keeping up with the procession or setting the pace.

The interest, as demonstrated by the responses, exceeded my expectations but did not increase my complacency. There is realization among cooperative leaders all over the country that there are difficult problems ahead for farmer cooperatives or for any other businesses serving farmers. There is widespread apprehension that cooperatives will not move fast enough to maintain and strengthen their position and take advantage of their opportunities.

Pacesetting "Musts"

From these letters I came to the conclusion that there are eight things that cooperatives must do if they are to make their maximum contribution or, we might say, if they are to set the pace. I won't labor these points here but I do want to state them.

1/ Notes for a talk for Northeastern Dairy Conference, Baltimore, Maryland, May 2, 1958.

1. Cooperatives must become larger and stronger. Small cooperatives, no matter how efficient, cannot meet the needs of our present large-scale agricultural and industrial economy.

2. Cooperatives must improve the quality of their management. To put this in a different way, cooperatives with weak management cannot set the pace.

3. Cooperatives must improve the quality and performance of their boards of directors. The job of management cannot be done by paid employees alone. It calls for the conscientious attention of a competent board of directors.

4. Cooperatives must develop greater financial strength. To do the things needed if they are going to set the pace, cooperatives must have funds for research, for facilities, for promotion, and for many other things, including the taking of risks, that go with modern business efficiency.

5. Cooperatives must catch up in the use of research. A cooperative can't be a pacesetter and follow the research of other organizations. A pacesetter will develop and apply new ideas.

6. Cooperatives must strengthen their membership work. Here lies a tremendous opportunity that cooperatives have over other forms of business. Have cooperatives made the most of it? Have directors and managers looked upon members as customers or have they looked upon them as partners in a joint enterprise? There is quite a difference.

7. Cooperatives must improve their public relations. Everybody knows this but not enough ingenuity has been applied in doing something about it. I would like to see a little real pacemaking in the field of public relations.

8. Cooperatives must learn how to help each other more. There are many ways that cooperatives can help each other and in so doing help themselves. Cooperatives can be pacesetters in working together just as well as in working separately. If it takes cooperation to compete with other business concerns more effectively then cooperation becomes a competitive principle of maximum importance.

Can cooperatives meet these musts? Of course they can if they set their hearts and minds to it, and when I say that cooperatives have hearts and minds I mean that cooperatives are made up of individuals who have hearts and minds. That is to say, I look upon cooperatives as flesh and blood organizations comprised of members, directors and employees. They are the cooperatives--not the managers alone--and they must all set their hearts and minds to this job of meeting these musts.

Can Cooperatives Set the Pace?

Can cooperatives set the pace? There are many who question whether they can do so.

Cooperatives must set the pace, or at least must be among the pacesetters, if they are to build and maintain the respect of their members and the public.

Setting the pace does not necessarily imply that cooperatives have to be first or be ahead of the pack on everything. Simply by doing a better job all along the line, cooperatives can be pacesetters. Cooperatives can be pacesetters by giving members better service than they can get elsewhere, or better prices, or superior quality.

Planning ahead is necessary to set the pace. By planning facilities wisely cooperatives will be in a favorable operating position in the future. Cooperatives must anticipate what is coming if they are to meet the long-time needs of their members. A recent article in Business Horizons emphasizes the need for "blue-sky" thinking, which is another word for planning in terms of the unpredictable future.

We are seeing strong cooperatives forging ahead while weaker ones are losing ground. If this process continues we will evolve a new structure of stronger and more efficient cooperatives. The old pattern cannot be preserved. As in our cities, there must be re-development and renewal in our cooperatives. This process has long been going on. I can remember the railroad livestock shipping associations which dotted the country. They are now largely history. Centralized marketing at terminal markets must now compete with direct marketing. Many technical and economic changes have occurred, and cooperatives have demonstrated that they could adapt to them. If cooperatives were not able to change with the times they would not have doubled their memberships in the past twenty years. The only thing new is that this process of change has speeded up.

There are a great many people who believe that cooperatives are parasitic, that they can copy but cannot create or innovate. They have been taught to believe it by the competitors of cooperatives, but let's look at the record. What have cooperatives done that is unique and distinctive? How well have they set the pace? I think the record is quite encouraging.

Dairy Cooperatives Can Take Credit

For illustration, dairy cooperatives have a lot of things to their credit. One that I would rank high would be the emphasis that they have placed on quality and dependability of milk products. The effective work of the Land O'Lakes and the Dairymen's League comes to mind. Land O'Lakes has brought respect not only to dairy farmers of the North Central States but it has also become a hallmark of quality throughout the nation. Cooperatives have done a very effective job in adjusting supplies to markets. Anyone who can remember the old days prior to 1920 must recognize the contribution that cooperatives have made to the stabilization of the milk industry. It was the farmers organized in cooperatives who paved the way for market regulation along democratic lines.

Let's go back in our minds to the old milk strikes--the New York milk strike of 1916 and the other milk strikes of some forty years ago. The organized dairy farmers then proved their right to a fair deal.

The story of how milk-bargaining associations established themselves and secured the passage of the Capper-Volstead Act for the benefit of all farmers has been well told by Charles W. Holman in his evocative book, "The Cooperative Way Wins in America." The men who fashioned and supported these dairy bargaining associations were pacesetters, in the finest sense of this word. It wasn't an easy job to get recognition for the principle that a cooperative corporation is entitled to treatment equal to that given to an industrial concern.

I know of no more significant job of pacemaking than that of the dairy bargaining cooperatives in working out base and surplus plans for stabilizing milk markets. Here was a job that organized farmers could do and they did it for the benefit of both producers and consumers.

Dairy cooperatives took the lead in helping the Government with its Federal milk marketing order program, and it is now generally recognized that cooperatives are essential to effective operation of such orders.

I could cite many other instances of pacemaking by dairy cooperatives, in vending milk, in conversion from can to bulk methods of handling, and in other operating techniques and procedures. The artificial breeding cooperatives also deserve mention for the pacesetting job they have been doing in raising the productive capacity of our dairy herds.

Other Pacesetting Achievements

The woods are full of illustrations of how cooperatives have set or are setting the pace. Probably I am in position to see this as well as any man in America, through the contacts that we have with farm cooperatives in our research, advisory and educational capacities.

My problem in emphasizing to you some of the ways that cooperatives set the pace is to not clutter up the record with too many illustrations, and yet give you some idea of the abundant variety of instances in which cooperatives have set or are setting the pace. My point is that cooperation is a vigorous and live idea.

A few years ago in a marketing conference I said that we needed "a cooperative breakthrough." I earnestly believe that the breakthrough is now coming. There is a vitality in cooperatives today that has not been manifested since the early twenties when Sapiroism was rampant throughout the land. But, the situation is different. Cooperation today does not have the evangelical fervour of Sapiroism. The enthusiasm for cooperatives today is built on the demonstrated achievements and lessons learned during the past twenty years. Cooperation today is looked upon as a matter of good business sense, and it is recognized that cooperatives must demonstrate business superiority to enjoy membership support. This is, to my mind, as it should be.

Cooperatives have had to be pacesetters to establish themselves. Life has not been a bed of roses for cooperatives ever since the first cooperative was established. Cooperatives have always had to justify themselves--to pull themselves up by their own bootstraps. They have had to earn their way as they have progressed.

Vertical Integration Not New

A good illustration of how the cooperative way has earned a place for itself is found in the petroleum industry. In the early twenties farmers found that they were paying exorbitant prices for petroleum, and they decided to do something about it. First, they set up local associations. It was not long before they found that they would have to go into the wholesale and refinery business because the integrated organizations that they were competing with were operating in all phases of the industry. There was nothing for the cooperatives to do but to integrate, themselves, and they proceeded to do so, with the result that now we have some twenty integrated petroleum cooperatives operating refineries, with several having their own pipelines and producing their own crude oil. They are making very substantial savings for farmers that they would not otherwise enjoy.

Let's examine this matter of vertical integration that has all agriculture stirred up. Who initiated the idea? I think you will find that the basic ideas back of integration have been demonstrated in the agricultural industry more by cooperatives than any other kind of farm business organization in the last twenty years. What has happened is that smart operators in other business firms have seen what cooperatives were doing and took advantage of this experience. Now cooperatives, in turn, have the job of studying the experience of their competitors and using any ideas that their competitors have been able to develop.

Sure, other firms got the jump on cooperatives in the broiler business, but that is no indication that over the long pull they will keep it. Some of our strong cooperatives are now operating integrated programs in the broiler field and are giving satisfaction to their members, while not disrupting their cooperative organizations. This whole broiler episode may turn out to be a fine thing for cooperatives by stirring up their imaginations.

Farm Supply Examples

I wonder how many of us realize what a great pacesetting job has been done by the feed, fertilizer, seed and general farm supply cooperatives. It wasn't so long ago when farmers had to pay exorbitant prices for feed and other supplies of doubtful quality. The G.L.F., the Southern States Cooperative, the Eastern States Farmers' Exchange--to mention only a few of the outstanding purchasing cooperatives--have changed all this.

Cooperatives can be proud of their establishment of the open-formula principle in handling feeds and fertilizers. This made possible a modern dairy industry based upon feed of reliable quality. The cost of producing the product to be marketed is fully as important to the final net returns of the producer as is the price that he obtains for his product from the buyer. Marketing and purchasing must be looked upon as two interrelated parts of the same whole.

Another area where cooperatives have done a fine job of pacesetting has been in the seed industry. Before the cooperatives came along farmers had little voice in the kind of seed that was furnished them. They could take it or leave it--and in many cases its quality was such that farmers would have been as well off to leave it. Farmers found that the only way to get the kind of seed needed was to get it through their own cooperatives, and in the last twenty or thirty years these organizations have set the pace in providing quality seed at reasonable prices. They have influenced the entire character of the seed industry, for other firms handling seed had to improve their seed services to stay in business.

Let's remember that cooperatives have been pioneers in serving their farmer members. Take, for example, the bulk-spreading of lime and fertilizer, and the use of paper bags in the handling of fertilizer. Recently we are seeing cooperatives pioneering in the development of a spreader truck which will apply separate fertilizer materials in any desired combination in one application. Up in Michigan a cooperative is making delivery of petroleum products direct to farmers from the refinery. We are watching a change in distributive methods all through the country, and farmers are demanding a type of service that it takes a cooperative to provide. Take, for example, the bulk delivery of feed. Cooperatives got into the lead early, and they have kept their lead in keeping down the cost of getting feed to the farmer.

It is also significant that the fertilizer handling cooperatives of the Central West and West have jointly acquired phosphate deposits and are building a multi-million dollar phosphate plant to serve their needs. This is not just ordinary cooperation. It is integrated cooperation--going back to the raw materials and carrying them all the way to the farm itself, cooperatively.

It was less then fifteen years ago that I heard a prominent man say that cooperatives could never do anything of this magnitude because they didn't have the management know-how. How frequently have we heard this theme, and how frequently has it been disproved by the facts! The kind of cooperative organizations that we have in the United States today answers the assertion that farmers cannot meet the competition in management of the large entrenched corporate enterprises with which they must compete. They are doing so, and if they were not doing so, effectively, there wouldn't be so much criticism of the cooperatives.

More Marketing Examples

Illustrations of pacesetting can be found in almost any cooperative field. In the marketing of cotton the Staple Cotton Growers Association of Mississippi has been a pacesetting marketing organization for some forty years. With the shift of the cotton industry to California, Calcot, Ltd., the big cotton marketing cooperative in California, has set the pace for the industry not only in sales returns to growers but also in improvements in marketing services.

In this program Calcot has given price recognition for quality, and it has improved quality determinations other than for grade and staple. It has pioneered the higher density bale thus reducing cotton handling and transportation costs. It has adopted automatic sampling of bales at the gin. It has reduced cost of handling cotton and it makes direct sales to domestic cotton mills and foreign buyers. This organization has built respect for cooperative performance in California, as well as in industry circles throughout the country.

It's also interesting that the Delta Products Company in Arkansas was the first cottonseed oil mill in the United States to install facilities for solvent oil extraction, a practice now widely used by both cooperative and noncooperative oil mills.

The livestock marketing cooperatives are also doing an outstanding job in representing producers. Take, for example, the record of the Producers Livestock Association of Ohio in introducing meat-type hogs under its Tend-R-Leen brand. And, over in the Shenandoah Valley--about a hundred miles from here--the Shen Valley packers are proving that a cooperative can get everything but the squeal out of a hog for the benefit of producer members. Times are sure changing!

In fruits and vegetables, cooperatives have long been pacesetters. The best example of all is Sunkist Growers, Inc., which, for over sixty years, has demonstrated how farmers through their own marketing agency can set the pace. The list of pacesetting achievements of Sunkist would fill a book, but the one that I wish to emphasize is the job that it has done in building consumer demand. The reputation of the California citrus industry has been built on the Sunkist name, and Sunkist has not only brought returns to California citrus growers but it has brought tourist dollars to the State of California.

Speaking of oranges, it is significant that the Florida Citrus Canners Cooperative was one of the first processors to produce frozen citrus concentrate, and today cooperatives process more than 40 percent of these products.

I might also say that the citrus cooperatives in Florida and California, by providing complete production, processing, packing, and marketing services for their members, have pioneered in integrating an industry on a farm base.

Right here near home the Knouse Foods Cooperative, Inc., of Peach Glen, Pennsylvania, is setting the pace with its line of instant fruit pie fillings, and demonstrating that a cooperative can be as ingenious as any form of enterprise.

Another pacemaking job has been done by the fruit and vegetable bargaining cooperatives which are growing at a rapid rate under present industry marketing conditions. These associations found a way to represent producers in bargaining with processors. Their significance was remarked in a recent article in the Wall Street Journal.

There are many new organizations developing in fruit and vegetables of the pacemaking type. It was a pacemaking achievement when the grape growers took over the Welch Grape Juice Company. There have been similar developments of this kind in Florida and California which indicate that farmer cooperatives can find the organizational ways to achieve the ends that they need and still retain their cooperative character.

Only a few weeks ago I attended the meetings of the National Federation of Grain Cooperatives, held in Washington. I was impressed with the power that the member organizations of this Federation represented. These regional grain cooperatives, which have largely developed in the last twenty years, are not small fry.

Take, for example, the Union Equity Cooperative Exchange in Enid, Oklahoma, which is owned by about 90 local cooperatives, serving some 25,000 farmers. The storage elevator of this association has a capacity of over 50 million bushels. It dominates the western plains like the Empire State Building dominates the skyline of New York City. This is a pacesetting organization. Its savings last year, after income tax, amounted to 2.6 million dollars, which indicates that it is doing a job for farmers. This organization has done a noteworthy job in raising the quality of wheat by paying premiums for approved varieties of merchantable wheat. Recently this association has added a complete milling and baking laboratory so that the baking quality of various kinds of wheat can be determined. Thus, it is able to give buyers the kind of quality of wheat that, in turn, will produce the kind of product that the consumer demands.

I can't use more time to comment on these regional grain cooperatives and the pacesetting job that they are doing. Right now they are working together on an export sales program. Studies are being made and, in time, the cooperatives will be able to get the advantages that will come from carrying their products to foreign markets.

Poultry cooperatives have a long record of pacesetting. The Pacific Coast associations many years ago made the nation conscious of their high quality eggs. The G.L.F. in the East has recently installed several modern, semi-automatic egg-grading machines, and is paying producers on consumer grades. This is a pacesetting idea.

In turkey marketing, cooperatives have been out in front. They were among the first to pay growers according to quality and to sell their products on government grades. The Norbest brand has been promoted and sold virtually on a national basis for almost thirty years.

Another organization that has impressed me is the Rockingham Poultry Marketing Cooperative in Virginia, perhaps because I enjoy eating chickens and turkeys of Rockingham brand quality.

Here in the East and Northeast there is more work to be done in the egg and poultry field, and the cooperatives are doing something about it. I expect to see some real cooperative pacesetting in egg and poultry marketing in this region within the next five years.

Let me give you a few more pacesetting examples. The Sioux Honey Association of Sioux City, Iowa, one of the largest firms in the honey business, is helping to integrate and stabilize the production and marketing of honey. It has taken the lead in the development of new products such as "honey syrup" and "honey peanut butter."

I almost forgot nuts. In California last summer I inspected the new plant of the Walnut Growers Association--some 14 acres under roof--modern in every respect, and the heart of the American walnut industry. The plant of the California Almond Growers Exchange is almost as impressive. These associations are giving industry leadership--to their grower members.

The rice cooperatives are up on their toes too. The Louisiana Rice Growers, Inc., is one of the first processors to adopt the "fishy-back" transportation method, which is like "piggy-back" except that boats are used instead of trains.

No Lag in Electrification and Credit

Among pacesetting cooperative organizations one can't ignore the great contribution of the rural electrification cooperatives. These organizations have largely electrified rural America in the last twenty years. The opportunity for serving farmers with electricity was passed by until the rural electrification cooperatives came along and since that time other firms have shown a great interest in providing farmers with electricity. Farmers can be proud of the pacesetting job done by their rural electrification cooperatives. All indications show that these associations are continuing to set the pace in providing farmers with the kind of rural electrification service they require. They are now making plans for atomic power generators.

Sometimes we overlook another kind of cooperative that has grown up in the last quarter century--the credit cooperatives associated with the Farm Credit Administration. These cooperatives have pioneered in providing farmers with services adapted to their needs.

Take, for example, the budget loans of the production credit associations which permit farmers to pay for credit in proportion to the time that they need it. This has had a great effect on lending practices for production supplies in agriculture and has reduced the cost of farming materially. The production credit associations have also got well under way their intermediate term loans to help farmers finance heavy machinery, irrigation equipment and other farm improvements. In the Middle West the production credit associations and farm supply cooperatives are now teaming up to provide an integrated credit and supply service. This is an experiment to watch.

The "normal value" loans of the National farm loan associations have long helped farmers own their farms. More recently, to meet agricultural changes, these associations have been striking out with loans to family-corporation farms and part-time farmers.

The banks for cooperatives have also been pacesetting. Not so long ago--before the banks for cooperatives came into being--farmer cooperatives found it very difficult to get the kind of financial consideration that was available to other firms. The banks for cooperatives changed this. They demonstrated that loans to cooperatives could be made on a business basis at reasonable rates of interest. Their competition in the lending field has caused other firms to provide more comparable service.

These are only representative instances of cooperative pacesetting. Many of you will think of others, as good or better.

What It Takes

Cooperatives must keep the pacesetting spirit. They should strive to excel. Everybody looks up to a winner.

Cooperatives have been too much on the defensive. They shouldn't allow themselves to get into this position. They should be out in front taking the offensive. I like the idea of Sam Thomson, President of the Baltimore Bank for Cooperatives, that cooperatives should get together on a common advertising program to make the public more aware of their products.

Cooperatives are now getting a better press than they have had for years because the logic of the times calls for cooperatives. The recent Farm Journal article, "Who Will Control Farming?" has been an eye-opener all across the country. The Farm Journal has followed this up with a series of articles which recognize that farmers, through their own cooperative organizations, can largely answer this question.

Cooperatives must operate on the assumption that farmers can control farming. If they do not believe this and work with this spirit the control of farming will pass into other hands.

I recently explained how cooperatives work to a man who was cynical about agriculture. After I had described at some length what cooperatives were trying to do and how they were doing it, he said, "Why didn't someone tell me this before? I can see that I have been misinformed about co-ops. I thought they were a bunch of chiselers feeding in the public trough and not paying their fair share of the taxes. I see now that they are a necessary kind of business organization that will help us keep down subsidies to agriculture."

His comments have had quite an effect on my thinking. I wonder whether we have done a very good pacesetting job in getting the story of cooperatives over to the people who ought to know about them. I think a lot of people are not naturally antagonistic toward cooperatives, but if we were in their shoes and got the kind of information that they are fed we would react in about the same way. Cooperatives have to change the public opinion climate, but first they must find out what it will take to change the climate. This can be done.

Just the other day I heard Dr. Ernest Dichter, the well-known motivational research authority, give examples of how motivational research was finding out how to change people's attitudes toward things. I couldn't help thinking that cooperatives have a big job of motivational research ahead of them. It's going to take some smart thinking but I think that if they face up to the problem they will get there quicker than seems possible.

One of the illustrations that Dr. Dichter used was how people were persuaded to use a different kind of bed sheet. When these bed sheets were put on the market a very attractive girl was used in the advertisement, but this didn't result in the sale of bed sheets. After making a very careful analysis of the situation they found that the reason the bed sheets didn't sell was that the housewife didn't like the competition. so, after deep thought, they used a Grandma rather than the younger woman. This worked like a charm, according to Dichter, for the housewife then said, "If these sheets are good enough for Grandma they are good enough for me." This is just a little illustration, but it may help me make my point.

Maybe we have been trying to make cooperation too attractive to some people. Perhaps we have been so enthusiastic outselves that we have oversold. Perhaps we should get the help of Grandma. I don't want to go too deeply into this for I am not an authority on motivation research. However, it suggests an intriguing question. How can we change the image of cooperation to the American public so that it will evoke an instantaneously warm reception instead of a negative, critical one? All of us here believe that cooperatives are good for the country. Because we believe this we think others should believe it. Can cooperatives find new ways of helping others understand and appreciate them?

The cooperative idea attracts because it is a progressive idea. It is built on the foundation stone of people working together and, as the world becomes increasingly organized, this principle will be increasingly recognized. Demonstrations of pacesetting achievements can help generate good will for the cooperative form of business enterprise.

Milk Cooperatives Are Here to Stay

The fact that cooperatives have their place in the dairy industry was recognized by Assistant Secretary Don Paarlberg in his address at the recent convention of the National Milk Producers Federation. I would like to quote what he said:

> "The cooperative movement has been found especially adapted to the dairy industry. A number of cooperatives provide the milk producer with a complete marketing service from the farm to the consumer. In addition, some supply many services that are associated with milk production. Others bargain, promote, or undertake to improve quality. It took time to find out what cooperatives could and could not do. The judgment in the light of experience is that cooperatives can have a key role in promoting progress and stability in the dairy business. The cooperative system is no longer on trial. Your milk cooperatives have proved their usefulness. Cooperatives will be an important part of our continuing attempt to solve our dairy problems."

At this same convention Russell Waltz, President of the National Milk Producers Federation, dealt as follows with the challenge of vertical integration for dairy farmers:

> "It is easy to see how vertical integration can be good or bad for the dairy farmer. If it starts with the dairy farmer and extends through his cooperative it can be of great benefit to the producer. If it starts at the top with the corporation which has control over the production of milk, processes it in its own plant, and supplies the products to the retail outlets it can be very detrimental in the long run to producers. . . . The farmer's answer to vertical integration is his cooperative association. Cooperative associations <u>are</u> vertical integration and the benefits that accrue through cooperative marketing go back to the dairy farmers as independent producers. Any other kind of vertical integration is the sure road to peasantry and the loss of freedom to American farmers."

Dr. Willard F. Mueller of the University of Wisconsin, who has been studying trends in the dairy industry, has dealt with this problem effectively in a recent talk entitled, "Dairy Cooperatives in a World of Bigness." He points out that "once many firms in an industry become fully integrated, sooner or later the rest must do likewise or die."

The implications of this statement are not hard to see. Unless cooperatives counterbalance the growing concentrations of power of other firms in the dairy industry they will forfeit the industry leadership that they have so painfully acquired over the past fifty years.

In his talk Russell Waltz expressed this same thought in these striking words:

> "Dairy producers through cooperative action--locally and nationally --must continue to set the pace for our American dairy industry Unless we are prepared to do this we must expect to have policies and programs imposed on us by individuals or organizations who have little or no qualification to represent dairy producers."

I am going to end on this note. Dairy farmers through their cooperatives will either set the pace or the pace will be set for them. In other words, they will be leaders, or they will be led. With this choice before them I think cooperatives will continue to set the pace.

COOPERATIVES AND INTEGRATED AGRICULTURE _/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I have given much thought to the subject assigned me, and I must admit that I'm awed by its scope and importance.

Just what does "integrated agriculture" mean, and how can I best grapple with the idea? I presume that the assumption is that agriculture is becoming integrated and that cooperatives must adjust to this fact.

Probably the intent of those who gave me this subject was that I would think of "integrated agriculture" as embracing under one control not only production on the farm but also related financing, supply and marketing services. The term "integrated agriculture" seems to tie in with the term "agribusiness" as developed by Dr. John H. Davis of Harvard University, although they are not synonymous. Davis maintains that you can't look at agriculture apart from the industries that deal with agricultural services, supplies and products. This idea is important, for the problems of the farmer are not going to be solved simply down on the farm.

When we think of integrated agriculture, do we think of integration in agriculture alone or do we think of agriculture integrated with other industrial organizations? Can you have integration in agriculture that stops at the farm gate? Where should it stop?

A 100 percent integrated agricultural product would mean that its production and marketing processes were completely controlled by one or a few operators until it reached the ultimate consumer. We have integrated organizations almost of this kind operating in many areas of American industry.

For example, a fully integrated petroleum company controls the handling and movement of the oil and its products from the time crude oil is taken out of the ground until gas is put into a tractor. A fully integrated agricultural industry implies similar production and marketing control for a farm product.

One point that I would like to make with regard to integration is that it is pervasive throughout industry. It is an economic process. It is a search for operative efficiency and economy. It is just like the law of supply and demand -- it exists. You cannot get away from integration or be for it or against it. Almost every business firm is integrated to some extent or in some way. It is a fact of business life.

_/ Talk for Georgia Cooperative Short Course, Athens, Georgia, June 23, 1958, sponsored by Georgia Council of Farmer Cooperatives, the Division of Agricultural Economics of the University of Georgia College of Agriculture, and The Georgia Center for Continuing Education.

The term "integration" is often used carelessly, and it's hard to know just what is meant in an economic sense. Economists have long used the term to cover the meshing together of businesses or business functions under one control. There are two major kinds of integration: "horizontal" where firms of the same kind are joined together for greater strength, and "vertical," where several functions, such as manufacturing, wholesaling and retailing are performed by one firm.

It is important to realize that horizontal and vertical integration usually go hand-in-hand. A chain-store system is an example of horizontal integration because there are a lot of stores gathered together in one large organization. But the chain stores thus grouped together also do wholesaling or manufacturing or other things together in one enterprise, and thus are also equally good examples of vertical integration.

Where Co-ops Come In

Now here is where cooperation comes in. Cooperation is a form of business through which several millions of farmers have already joined together to integrate one or more essential off-farm functions. It is commonly said that a cooperative is but an extension of the farm. That is correct. If the cooperative is an extension of the farm that is simply another way of saying that the cooperative is a form of vertical integration. The cooperative permits the farmer to extend his operations into marketing his products or obtaining needed farm supplies or services.

Thus the primary principle of all cooperation is integration, and the objective of all cooperation is to secure the advantages of integration through joint effort.

When a group of farmers join together in a cooperative they are integrating horizontally, but when their cooperative performs functions in production or marketing that the farmers could not do themselves or do to their best advantage, it extends the horizontal integration into vertical integration. In the same way, when a group of local cooperatives federate, they integrate horizontally, but their objective may be to achieve advantages in procurement, wholesaling, transportation, or processing through vertical integration.

It should be kept in mind that vertical integration of any consequence cannot be carried far without a base built on horizontal integration. Large numbers of farmers must be integrated horizontally if they are going to represent a large enough volume of business to make vertical integration of substantial significance. The major chain-store systems illustrate what I have in mind. Tied together, these stores have enormous market power. In one system these stores can perform many functions beyond the power of the individual stores.

One of the best examples of highly integrated activities in agriculture is Sunkist Growers, Inc., which was started by California citrus producers before the turn of the century. These growers first organized local cooperatives, but they found that they were not strong enough to take their products on to eastern markets until they set up a stronger organization.

So they federated and set up a national sales system. In other words, they integrated both horizontally and vertically until they could put oranges and lemons into practically every community. Savings and advantages from the integration have flowed back to the producers who were the integrating agents, and consumers have benefited as well. 1/

Farmers Face New Conditions

Now we come to some new ideas. Agriculture, as all of us recognize, has been going through a revolution. So has industry. The old methods of marketing agricultural products will no longer serve. Organizations which grew up in the horse-and-buggy days are having to adjust to jet-propulsion.

So let's proceed with the idea that agriculture is becoming integrated; that farming can no longer be thought of as a strictly independent area of enterprise; that farming has been caught up in our industrial civilization; and that we may just as well make the most of it.

Does this necessarily mean that farmers cannot retain a large share of their independence? Cannot integration be made to work in agriculture for farmers as well as for other businessmen?

Recently we have heard a lot of discussion on this theme: "Who Is Going to Control Farming?" 2/ Well, it seems to me that the answer is simply this: Those who control the forces of integration. If the farmer controls the integration the farmer will control agriculture.

1/ For further discussion of the interplay of horizontal and vertical integration, see my article, "Cooperative Expansion Through Horizontal Integration," in the Journal of Farm Economics, November 1950. In that article I said, "Both horizontal and vertical integration are tools for expansion. Frequently, they can be used together like a shovel and a pick."

2/ This is the question posed by Carroll Streeter in his widely reproduced article in the Farm Journal of February 1958. In this article he also said: "Farmers are now faced with a decision that won't be put off for long. Will they control and run their own business or will they let somebody else do it for them?" Dr. E. G. Nourse expresses the alternative somewhat differently: "The crux of the issue today, it seems to me, is in the question of where the seat of control is to be. And I think this has to be analyzed very frankly in terms of whether capital and truly managerial direction will, as a practical matter, be more adequately forthcoming from the agricultural (cooperative) end or from corporate processers." Dr. Nourse tells me that he got the problem of integration in his "sights" as far back as 1918 in writing his book, The Chicago Produce Market.

Eleven years ago Dr. John D. Black of Harvard University saw a problem shaping up on the horizon. In his incisive article, "Guide Posts in the Development of a Marketing Program," in the Journal of Farm Economics, August 1947, he saw chain stores and other mass merchandisers moving back toward the farmer, and cooperatives, on the other hand, moving forward from the producer toward the consumer. Black thought that these two trends would finally mesh together to achieve maximum efficiency in marketing, either under the control of the chain stores or under the control of the cooperatives, or through a combination of the two. Should this development be carried to its logical conclusion, farming as an independent enterprise could largely cease to exist apart from their cooperatives.

We might here ask what has happened to the independent grocer? For a time it looked as though chain stores were going to take over the food retailing business. Then the independent stores began setting up retailer cooperatives to obtain the economies of chain store operation, and wholesalers achieved the same general end through "voluntary groups" of retailers. As a result, the percentage of grocery business done by corporate chain stores has not materially increased over a considerable number of years. _/ In the same way, farmer cooperatives have been demonstrating that they can help keep the independent farmer in business by giving him the benefits of integration.

An organization like the Cotton Producers Association is big enough to employ managerial talent to put into effect any kind of a program that its farmer members want. If the members want to turn over more of their managerial responsibilities the Cotton Producers Association can arrange to handle them under contracts. It can take over part of their risks. It can take over part of their financing job. It can provide them with required technical services.

Moreover, I am not pessimistic on the alleged inability of farmer cooperatives to meet the competition for management of other business firms. There is nothing magic or sacred about management. Management is a state of mind, an art, a science, a talent, plus experience. Competent management can be obtained by cooperatives who are capable of recognizing the necessity of it, just as well as by General Motors or any other corporation.

One of the big problems of farmers is to see these things clearly. They must break away from narrow individualism and be able to look upon themselves as partners in large integrated cooperative enterprises. They must be willing to subordinate themselves to the extent necessary to make their cooperatives work. Only through self-discipline and group solidarity will they be able to meet competitive purchasing and market power.

_/ See "Facts in Grocery Distribution," 1958 edition, issued by Progressive Grocer.

There is no alternative for farmers to tie together their production and marketing functions and still essentially retain their independence except through farmer-owned, farmer-controlled cooperatives. It is true that certain non-cooperative organizations have developed systems where source of supplies, production and marketing are fully integrated. But note that in this case farmers assume a passive role and are integrated by forces not under their control. The same result could be achieved by farmers through cooperative organizations that are owned and controlled by them. To put this another way, if farmers don't integrate through cooperatives they will be integrated by other business firms.

Reasons for Integration

Let us briefly review some of the economic reasons for integration. We might ask this question: Why do businesses of any kind integrate? The answer is -- primarily to make money.

For one thing, they integrate vertically to obtain a source of raw materials or access to markets. Many firms have integrated by going into manufacturing in order to obtain necessary supplies or raw materials.

It may be that a firm integrates to develop market outlets or develop a new product.

Another motive for integration is to pyramid savings through inter-company transactions. Through integration under one control it is possible to spread managerial ability, facilities, research, informational, financial and other resources, and combine savings at various stages of the production and distribution process.

The petroleum cooperatives found that when they were only integrated up to the wholesale level, the significant margins were being taken in refining. Then they integrated up to the refining level and found that the maximum savings were to be obtained only if they owned their oil wells and pipelines. They had to have an integrated organization all along the line in order to be sure they were not missing significant opportunities to obtain savings for their members.

Another incentive to integration is to spread risks over more than one operation.

A major objective in integration also is to achieve or maintain independence. As long as a firm is not integrated it must buy and sell on the available market or be dependent on one or a few suppliers or purchasers.

Many firms have integrated in order to obtain the quality of product that they need. A retail chain system with its own private brands may need to arrange for the production of dependable products under these brands. Moreover, many wholesalers have found that unless they tie into retailing they may not be able to reach consumers.

Farmers, no more than others, can allow themselves to become dependent on integrated industries for raw materials and markets. In an economic world of limited markets and huge integrated firms it seems inescapable that farmers likewise must integrate to obtain their raw materials most economically and the most profitable outlets for their products. It's just as simple as that.

Integration for Bargaining Power

One of the things we hear today is that farmers must have more bargaining power, and we have heard this off and on for the last fifty years. When we say that farmers need more bargaining power this is just another way of expressing the fact that the farmers need to be more strongly integrated horizontally, as well as vertically. Labor unions are horizontally integrated organizations. They represent the bargaining power of all the individuals represented and this gives them great organizational strength.

If farmers are to have comparable organizational power they must be joined together in strong organizations. Aaron Sapiro recognized the need for this in the early 1920's. Based on limited California experience with specialty crops, he vigorously promoted the formation of commodity-wide cooperatives to attempt monopoly control over certain basic crops -- cotton, tobacco, and grain. In order to make the control effective, the members were to be tied together by "iron-clad" contracts which would give the organization the right to market the members' production of the specified crop for a fixed period of time.

Sapiro did not stop with horizontal integration. The commodity organizations to be set up were not to be simply bargaining associations. They were to perform merchandising functions and were designed to achieve, through merchandising efficiency, orderly marketing. In fact, they were to be vertically integrated as well as horizontally integrated organizations.

Through the iron-clad contracts, Sapiro planned to obtain almost complete control of supply and thus over price. However, he overlooked several factors -- one of them being the problem of production control, for success in raising prices would have increased production so that it would have been hard to sell the increased production at remunerative prices. Our experience with governmental price control has demonstrated the difficulty of controlling production if prices are attractive.

It is well known that the cooperative organizations promoted by Sapiro broke down in administration. It was impossible to build overnight cooperatives strong enough to achieve the ends that were hoped for. Like so many other systems, Sapiro's so-called system overlooked human nature, competition, management needs, and a number of intangible factors.

Nevertheless, it is important that we study this attempt at integration in the twenties in the light of the changed conditions of the fifties. The lessons from the failures of Sapiroism may help us establish realistic principles for better integrated cooperative organizations. For example, it is significant that Sapiro, himself, came to realize by 1926 that he had overlooked the importance of management and membership education in attempting to build strong, well-integrated commodity marketing enterprises. We have made great strides in management and membership education in the past thirty years, and significant integration is more attainable today than it was then.

There is one idea held by Sapiro and many earlier cooperators that we are coming back to, namely, that there should be a membership agreement or contract between a marketing organization and its members, clearly stating their respective responsibilities. For a number of years there has been a widespread tendency to discount the importance of formal marketing or membership agreements although they have been continuously used to advantage by numerous West Coast and other marketing cooperatives.

There is nothing radical about the use of a membership agreement or contract. It is simply a business arrangement among producers for carrying on business in a mutually agreed-upon way. Marketing contracts of one kind or another have been found necessary by commercial concerns which have entered into contracts with producers, and there is no reason why a farmer should hesitate to deal with his own fellow producers by contract. In fact, it is difficult to visualize a well-knit, highly-integrated cooperative marketing activity that is not based on a written agreement among the members.

What is today's contract farming except the use of contracts by concerns to insure a steady supply of business. These firms have simply taken a leaf out of the old commodity contract idea. Such contracts have been used in American agriculture for many years. The only change has been their accelerated application and increased adaptability to farming operations. Instead of being sporadically applied to certain crops they are now being employed intensively and selectively over wide territories.

One reason that food processors and others have reached back to the farmer to obtain their supplies direct is that farmers were not organized to perform production and marketing functions required by today's industry. Unless cooperatives are able to provide substantial quantities of high standard products of uniform quality, marketing efficiency dictates the entrance of private integrators. Cooperatives must be strong if they are to serve as procurement agencies for large integrated food systems. Moreover, to produce for the market as it is today, cooperatives may need to raise their membership requirements -- for products must be geared to consumer needs.

Can farmers build strong cooperative organizations capable of meeting the power of the firms with whom they must deal? To what extent are specialized bargaining associations the answer? Milk bargaining associations, for example, have demonstrated that they can effectively bargain for their members. The fruit and vegetable bargaining associations are proving the same thing. It is logical for chain stores or other mass buyers to deal with producers through cooperative organizations rather than by working with them directly and singly, and farmers must have organizations to meet this natural demand.

The Contribution of "Across the Board Marketing"

Some twenty years ago Ed Babcock of the Cooperative G.L.F. Exchange, was attracting national attention by advocating what he called "across the board marketing." He saw marketing as embracing under one control all the steps in the marketing process from the farmer to the consumer. Likewise, his conception of "across the board marketing" covered all the steps in procuring farm production supplies from the acquisition and production of raw materials until the supplies were placed in the hands of farmers; and all the steps in marketing, from the farm gate until the product was acquired by the ultimate consumer.

That is to say, a complete across the board marketing setup, as envisioned by Babcock, would be a vertically integrated system under the farmer's control, reaching back to the ultimate producer for supplies and taking farm products from the farm clear through to the consumer.

However, it should be kept in mind that Babcock realized that you had to have a large organization to accomplish this high degree of vertical integration. He assumed that the organization would be horizontally integrated in the first place so that it could provide buying power, financial strength, management, and all the other requisites to vertical integration.

Babcock's idea was that the steps in marketing and purchasing could be meshed together by cooperative action in such a way as to achieve great organizational strength, economy and efficiency. The promotion of frozen food locker and packing plants, canneries, retail food stores, and other marketing enterprises by the G.L.F. in the early 1940's was an outgrowth of this "across the board" philosophy.

Although Babcock's ideal system has never been completely realized in a fully integrated purchasing, business service, and marketing cooperative, it has been substantially achieved by such organizations as the G.L.F., the Southern States Cooperative, the Washington Farmers Cooperative Association, the Indiana Farm Bureau Cooperative Association, and the Cotton Producers Association. It is significant that many cooperatives are now moving in this general direction.

Vertical Integration by "Contract"

I would now like to deal briefly with contract farming -- the most widely publicized kind of vertical integration today.

Contract farming is a form of vertical integration where control is achieved by contracts with producers rather than by ownership. I am not going into a long explanation of contract farming and the various forms of contracts used, for you know how these contracts operate. Georgia probably now leads the nation in broiler production under contract and I don't want to carry coals to Newcastle. Anyway, I am not so much concerned in this talk with the mechanics of any one kind of integration as with the relationship of the principle of integration to farming and cooperatives.

Since the broiler enterprise was first "integrated" through contract arrangements starting some twenty years ago, production has expanded forty-fold. We might ask -- how much more can it be expanded? Just how many broilers will people eat? What if this contract farming gets over into pig production and increases pig production forty-fold? 1/

What has happened since integrated broiler production was introduced on the Del-Mar-Va Peninsula? 2/ I was over there a few weeks ago and saw a number of derelict farm buildings that had once been used for producing broilers. I realize that a lot of broilers are still being produced there, but other areas, such as here in Georgia, are now the leading producers. It may be that broiler production will come to roost in the Southeast because of comparative advantages, but there may be some rough inter-regional competition ahead.

If contract production is profitable for farmers, how long can it be confined to those in the game, or how long can those in the game restrain themselves in producing broilers? Or pigs? Or other contracted item?

1/ On this, my colleague, Kelsey B. Gardner, observes: "Broilers are one thing, pork or beef another. Expansion in a relatively minor commodity in relation to the total meat supply is possible without upsetting the apple cart. A similar expansion in red meats or pork is an entirely different matter."

2/ A full answer is given by Frank D. Hansing, "Financing the Production of Broilers in Lower Delaware," Agricultural Experiment Station, University of Delaware, Newark, Delaware, Bulletin No. 322, October, 1957.

As margins gradually fall off the weaker individuals will find it hard going. Whenever prices are fixed, either by government or otherwise, and it becomes profitable to produce, supply is bound to expand. The same thing is true of broiler production or any other kind of production under fixed price or margin contract plans. If prices or margins are set too high or set much above costs, production will expand and the supply will automatically force prices down. _/

What is going to happen in the long run under these contract plans? It would seem that the stronger-financed, better integrated organizations will survive and the fly-by-night operators who have gone into what looked like a good thing may be forced to the wall. There are already many indications that many concerns have given up their contract deals. Many feed concerns and others have engaged in contract farming, not because they wanted to, but because they had to, to protect their feed or other businesses. It was integration, or else.

What we are here concerned with is the effect on the farmer of this competition for the farmer's business. As long as everybody is bidding for the farmer's business, contract farming may seem a very good thing, but when the farmer begins bidding for business with the integrated concerns it may be a horse of another color.

Some farmers seem to feel that vertical integration can solve all of their problems. They enter into contracts to produce broilers, pigs, or some other product. It seems like a good deal to them. They get an assured market at a guaranteed price. It seems that they can't lose. However, we might ask -- is there a sure thing in business, or at least a sure thing that will stay sure?

There is danger of looking at the problem of integration too narrowly, just as simply a question of contract farming. Contract farming is only a special and limited form of vertical integration. It certainly should be given due consideration but it should not be allowed to wag the whole dog.

One fact about vertical integration is that it ties tightly together several business functions through contractual arrangements or ownership. When farmers become part of an integrated system that they do not control they do not have the freedom of determining just how the integration is going to work.

_/ Some sobering thoughts are to be found in the Georgia Poultry Times of June 20, 1958. One article, dealing with a broiler promotion program, reported that "The committee is making this an all-out effort to move the present crop of broilers." An editorial entitled, "Cooperation needed on Industry Problems," stated that "A glance at the production figures in all three of our major products, chickens, eggs and turkeys, will show that a great deal of promotion is going to be needed if we are to avoid disastrous slips in prices."

In the case of a cooperative, integration is carried on in behalf of farmers, and farmers can control the way in which the process is directed. In the short run, a cooperative may not be able to offer as profitable a contract plan as some other competitor, but over the long pull it may be a lot safer integrated plan. This is something that farmers should think through pretty carefully.

When one gets into an integrated setup it is not easy to extricate oneself. The farmer may have committed just about everything he has to the integrating concern. He may have to stick with it because he has no alternative. In a cooperative, as contrasted to other types of firms, he can exert control over the type of integration he participates in.

In the long pull we can be sure that the best integrated organizations will come out on top, whether they are cooperative or noncooperative. And cooperatives actually have several inherent advantages which make them capable of reaching the top.

Co-ops can perform jobs that no one else can, or will, do so well. Many large non-cooperative concerns have found that there is a limit to the advantages in doing everything for themselves and they are glad to let the cooperative do much of the integration for them. Recently a dairy cooperative manager told me that his firm was serving several large dairy product companies -- to the mutual advantage of all concerned. The problem of administration and control becomes great as a business organization works in various levels of production and marketing, and many are glad to turn over procurement and other responsibilities to a competent producers cooperative.

Integration -- To What End?

When you go around the country you find many people who look upon contract farming integration today as something of a panacea. We see exuberant statements of how it's going to increase efficiency and benefit farmers. However, most of the discussion is based on the benefit, not for the farmer who is in existence today but for the farmer who is going to take the place of the farmer who is in existence today. _/

There is also a fatalistic attitude toward integration in farming -- that integration represents progress and that you can't stop progress. This kind of attitude usually prevails in boom periods in any development. At the present time almost everybody is on the integration band-wagon, regardless of who is doing it. If the riding gets rough, many people will want to get off just as fast as they got on.

_/ For example, see the challenging article, "Revolution Down on the Farm," by Neil M. and Pearl H. Clark, in a recent issue of the Saturday Evening Post.

Integration is now in the buoyant stage, like Sapiroism was in the twenties. It took a few years for serious second sight to really see the flaws in the Sapiro argument. What are the flaws in the argument for integration? Can it solve the farm problem? Will it cut down the farm surplus? What will it do to farm prices? Will it increase the consumption power of consumers?

Integration is a competitive tool in the struggle for survival in farming but it cannot assure all farmers of cost of production plus a reasonable profit and permanent prosperity.

One of the unsettled problems raised by integration is -- how will it affect the basic structure of our agriculture? We have long been proud of the fact that our agriculture was based on the family farm. Are we ready to discard this basic concept? If we are not, we will want to be very careful in how we deal with integration.

Is soil erosion more of a problem than the erosion of the family farm? We take steps to stop soil erosion. Should we complacently let our distinctively American pattern of independent farm operations go down the drain without a struggle? _/

The process of integration will continue as small concerns are weeded out and control of supplies achieved. When the process is completed, where will the farmer be? Thoroughly absorbed -- with his vaunted independence lost? Or will he be part of a stronger organization that can guarantee his independence? Without cooperatives even the big farmer may find himself up against a tough proposition.

I think it is very proper that many people have a great concern for the future of our family farm system of farming. While I do not believe that we are going to lose the family farm, which is supported by good economic and farm management logic -- yet it seems clear that the family farm must adapt itself to the times and become a much stronger operating unit than it has been in the past. We now have many very efficient family farms, and I do not anticipate seeing all of them rapidly swept away by the process of integration. What I would like to see is more strong family farms that would give a better basis for integration through cooperatives. Integration through cooperatives can help build stronger family farms and stronger family farms can help build stronger, better integrated cooperatives. In this connection our concept of what constitutes a family farm may need to be revised. Mechanization, combined with greater specialization, may require a much larger and more efficient type of family farm.

_/ D. W. Brooks, General Manager of the Cotton Producers Association, has well answered this question in an article, "The Future of American Agriculture," in the Dixie Co-op News for May, 1958.

It seems to me that the Purdue analysis of "Vertical Integration in Agriculture" has been very valuable in pumping some sense into the discussion of integration. The Purdue report finished with these sentences: "The permanency of farm enterprise integration efforts as a way of obtaining coordination in control is still to be tested. As it develops, counterdevelopments of other types of organization may be encouraged." The Purdue report looked at the process with a cold fishy eye and, although it saw great possibilities it also saw great problems. For example, the report made this point: "If a few integrators obtain dominance then all of the potential evils of monopoly may exist. In such circumstances the supervision of government or the development of stronger counter marketing agencies may be necessary."

Harry Beernink, General Manager of the Washington Co-operative Farmers Association, and President of the National Council of Farmer Cooperatives, has recently said that agriculture is going to be increasingly integrated either by and for the benefit of farmers or by suppliers, processors and distributors at the expense of farmers. As he puts it: "It makes all the difference in the world whether vertical integration starts with the farmer and on his behalf . . . or whether it starts at the other end . . . working back through the successive stages to the benefit of the first principals rather than the farmer."

Integration Calls for Strong Cooperatives

What are co-ops doing in the whole field of integration? The answer is "a great deal." In all parts of the nation cooperatives are waking up to the problems and -- more important -- the opportunities of integration. There isn't an area in the United States where cooperatives are not giving attention to how they can build stronger, better integrated organizations. Many of them are giving consideration to contract arrangements with growers. Many bargaining associations have been set up as a means of developing the kind of organizations that are needed to protect growers in dealing with a few large powerful buyers. Some are moving into processing to safeguard grower interests.

In view of its importance, how should cooperatives approach this question of vertical integration and more specifically contract farming? What can they do about it? I think cooperatives should address themselves to this question and think it through. Whenever anything is popular there is a universal tendency for everyone to get excited about it and there is danger that snap decisions will be made that will later be regretted.

So far, I am glad to say, cooperatives have not been stampeded by contract plans for integration. While they may not have moved as fast as they should in this area they have moved faster than many people realize, and maybe it's a good thing that they have waited to see how contract programs have worked out and which are best for the farmer. There is a lot of experimentation and study going on with regard to contract plans and probably some of the plans now being used will not hold up.

There is great danger from a piecemeal approach to this subject of integration. What is needed is more of a long-time planning approach. We must consider the implications of present-day decisions. Where will they lead? What kind of an integrated program must farmer cooperatives develop to serve the needs of members? How should farmers and their cooperatives proceed to better integrate for the long pull--both horizontally and vertically?

There is great danger when a subject like contract farming becomes popular that emphasis will be placed on it at the expense of other forms of integration which are not necessarily tied directly to contract farming. For example, can cooperatives consider the problems of integration without considering the problems of membership control and support? Any integrated program must certainly be built to attract and maintain the support of members. What will a proposed integrated program do to the basic cooperative structure? Do contracts with members treat all members on an equal basis or give all of them the same opportunities to integrate their operations with the cooperative? What about finances? Where are finances going to be developed that will be needed in an integrated program? To what extent can aid in financing be obtained through banks for cooperatives, production credit associations, credit unions, or other lending agencies? What about top management? Where are cooperatives going to get the manpower to effectively carry on efficient and complex integrated programs? What about research? Do cooperatives now have all the answers? What kind of a research approach should they take to integration?

To deal with this subject of integration effectively, cooperative leaders must deal with all the basic problems of a cooperative while focusing attention on ways to build strong integrated organizations.

One other important thing -- cooperatives can work together in achieving many of the benefits of integration through coordination without being technically integrated. That is where your Georgia Council of Farmer Cooperatives comes in. It is an integrating agency which helps your cooperatives meet problems together through better pooling of efforts.

Many policy questions will come up as an organization gets deeper into integration. Who can solve these problems best for members? Are they problems that should be taken to membership meetings? Are they problems that can be left solely to the general manager?

It seems to me that many of these problems must be grappled with by a board of directors in cooperation with the manager, and that the members must also be kept well informed as to how these policies affect them. How can boards of directors be strengthened so that they will be better equipped to advise on the necessary policies that will come with extension of integration?

My main point is that integration is a longtime permanent process and that if cooperatives are going to succeed with it they are going to have to make long-term plans for it.

To Sum Up

Now let me draw my ideas together:

1. Integration in agriculture is here to stay.

2. The cooperative form of organization is the only device available to farmers to control integration for the benefit of farmers.

3. The logic of cooperation is becoming more clear as an integrating device for agriculture.

4. Farmers have demonstrated that they can develop strong, integrated organizations in the interests of farmers as producers.

5. Cooperatives as integrated organizations can help protect the independent enterprise character of our farming industry.

6. We are in the midst of a great upheaval in agricultural industry that will call for stronger organized, better financed, better managed, better directed and better supported and more thoroughly integrated farmer cooperatives.

7. Farmer cooperatives should accept integration as an opportunity and should take steps to build the kind of integrated organizations that agriculture requires.

8. Well integrated cooperatives require better understanding by members of their responsibilities to finance and participate in control and direction.

Is there a need and future for cooperatives in integrated agriculture? It seems to me that the answer is -- an unqualified "Yes" -- a need and a future greater than ever, for cooperatives are integrating devices that farmers can use to maximize their income.

Can farmers build strong integrated organizations, adequate to represent their needs? They have demonstrated that they can -- and the record indicates that they can do more along this line than they have done in the past.

I would like to close with a statement made recently by an Assistant Manager of a large regional cooperative in a report to his board of directors. He said:

> "We are convinced that it is no longer a question of whether cooperative purchasing and marketing should be integrated. It will be a necessity in order to compete in the coming economy.
>
> "We believe that farmers are faced with this decision. Either they will support an effective cooperative marketing association and thereby have some degree of control in the operation of the business and some real opportunity to share in the profits, or they will, as individuals, pit themselves against the large commercial organization which is doing the contracting and attempt to come out on top."

This seems like good cooperative gospel to me.

In the US

Now let us draw up some lessons:

1. Generalizing in agriculture is not so easy.

2. The contractive form of organization is the only device available to farmers in remote locations for the benefit of farmers.

3. The difficulty of determining is because more clear -- or laboratory-minded for agriculture.

4. Farmers have demonstrated that they can develop strong, integrated organizations in all industries of farmers or producers.

5. Cooperatives in otherwise of activities can only protect the independence interests, economic or the farming industry.

6. We are at the point of a [illegible] change in attitudes concerning the [illegible] of self for economic organizations, better financing, better management, better attention and better properties and more responsibility integrated farmer cooperatives.

7. Farmer cooperatives should accept responsibility to be correctly and should [illegible] to build the kind of cooperative organizations that agricultural economy.

8. Well integrated cooperatives require strong conventions by members of their responsibilities to finance and participate in control and direction.

Is there a good and secure for cooperatives in integrated agriculture? It seems to be that the answer is -- as [illegible] "Yes" -- a good and a [illegible] greater than ever, for cooperatives are integrating farming that [illegible] are to maintain their income.

The farmers might strong integrated organizations, [illegible] to represent their [illegible]. They have demonstrated that they can -- and the record indicates [illegible] they can do more along this line than they have done in the past.

I would like to close with a statement that recently by an outstanding manager of a large vertical cooperative in a report to his board of directors. He said:

"In the conclusion that is an image a question of whether [illegible] marketing and marketing should be integrated. It [illegible] a necessity in order to compete in the dairy economy.

We believe that farmers are faced with this question. Which that [illegible] an efficient cooperative marketing association and thereby have some degree of control in the operation of the business and some real opportunity to share in the profits, or they will, as individuals, pit themselves against the large commercial organization which is doing the contracting and attempt to come out on top."

This looks like good cooperative people to me.

RESEARCH NEEDS TODAY 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
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The problem of integration confronting cooperatives today may not be the most important problem that cooperatives have had to face in the last 100 years, but its importance cannot be questioned. It may take us a hundred years to know just how important this problem may be. This may be the time of decision, and it may be that what cooperatives do now to meet the problem of integration will largely determine how cooperatives will develop during the next 100 years.

I do not look upon integration as something of a fad. Rather, I look upon it as an economic process which bears on the growth of all economic institutions. Cooperatives cannot avoid the problems of integration, for they are integrated organizations to begin with. The question before us is how can cooperatives best use the processes of integration to achieve their ends of serving the needs of the farm and general community. Research to strengthen farmer cooperatives therefore calls for consideration of the problems involved in cooperative integration.

Before proceeding, I would like to concur with the views expressed by Jim Tinley on research needs to meet this problem of integration. Jim makes three excellent points which I will briefly restate:

1. There should be a careful analysis of the buying practices of different types of wholesale-retail combinations, their attitudes toward farmer cooperatives, their willingness to buy products through cooperatives, and their pricing practices and policies.

2. There should be studies of how cooperatives can revamp and relocate assembly and processing facilities for their revised purposes.

3. There should be examination of modifications needed in the organization, operation, financing, control of cooperative associations -- individually and collectively -- by area, functions, or commodity groups.

1/ Talk given at American Institute of Cooperation, Pennsylvania State University, August 1958.

Now I wish to briefly offer a few points for consideration.

1. More and Better Research Needed

My first point is that we need more and better research relating to organization, management, finance, membership, public acceptance of cooperatives. All of this should take into account the fact of integration. Integration is the climate in which we work. We work on integration problems because the objective of all cooperatives is better integration.

2. This Is a Time of Crisis

My second point is that this is a time of crisis. Decisions must be made now and will be made whether or not they are based on research. The need for research was never greater, but research will be useless unless the results can be made available before decisions are made. The biggest research problem today is to find the right problems to work on, and to get the results out. I have always been impressed by the famous dictum of Professor George Warren with regard to research. "Get it out. Get it out."

3. Apply Efforts to Strategic Problems

This brings me to my third point. We must apply our research efforts to strategic problems. What problems are key problems? This question will differ for areas, commodities, and cooperatives. Research must be tailor-made to meet the needs of specific cooperatives or groups of cooperatives. We must also have basic studies to meet such broad problems as: How can we get real public acceptance for cooperatives? How can we maintain member support as organizations become larger? How can we get farmers and their organizations to subordinate their selfish interests in order to achieve broad benefits? How can we maximize our cooperative resources through real teamwork?

What kind of farming industry do we want to have? What are our goals? Unless we know what we want we will be tossed around like a rowboat in the ocean.

Do farmers control their industry? Do they want to? If they want to they must employ cooperatives, for there is no other way for farmers to gain the power of organization. How can unorganized units meet the competition of huge and powerful organizations? Do we need research to find out how to burn this idea into the minds of farmers and their leaders? When farmers realize that cooperatives are lifeboats necessary for their preservation they may treat them with more respect.

Barometers Needed to Guide Research

My last point is that we need barometers to guide us in our research. We need to know what is going on in industry and agriculture. We need all the statistical information we can get to show cooperative trends and developments. Without good statistics we don't know where we are or what our problems are.

Accounting also is a barometer. We need accounting records that will disclose efficiency or opportunities for development. As organizations grow in importance and complexity we need more precise accounting data to know what costs really are. While cooperatives have made much progress in the application of cost-accounting techniques, this is a field where much productive work can be done.

I want to end this brief statement with a word of optimism. Cooperatives are waking up to the importance of research, as evidenced by the interest in this meeting. Cooperatives are beginning to appreciate that they must know to operate well, but they have a long way to go to catch up with their corporate competitors in this regard. They are still half asleep at the research switch.

THIRTY YEARS OF COOPERATIVE PIONEERING *

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

United Cooperative Farmers, Inc., has come a long way in thirty years, and it is proper that you take time to celebrate your achievements. Pride is not something to be disparaged when it is built on character and solid accomplishment.

It is true that "pride goeth before a fall" -- if the pride is really vanity rather than respect for a good job well done.

I sometimes wonder if we take enough pride in our cooperatives, our schools, our churches, our cities, our farms, our industries, and our country. When people take honest pride in the right things it makes for happiness and prosperity.

We are here today to commemorate your thirtieth birthday -- to pay homage to the pioneers who have made possible what you have today.

It is proper at a time like this that we look back and scan the road we have come -- to give ourselves courage to push forward into new fields -- to new accomplishments. There can be no resting on one's oars in cooperatives or in other walks of life. The world moves and we must move with it, using the lessons from the past to ease the burdens of the future.

It is an inspiring thing to see how far you have come since November 27, 1927, when four small cooperatives of blueberry growers decided to merge. Today, the blueberries give but a flavor to your extensive operations in feed and other farm supplies, and egg and poultry marketing. I have examined your record of almost year-by-year growth until you now do a total volume of business nearing 10 millions of dollars. Your business standing is attested by total assets on December 31, 1957, of $1,272,615, of which $1,082,320, or 85 percent of the total, represented the investments of your members. This is an enviable record.

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* Talk for Thirtieth Anniversary of United Cooperative Farmers, Inc. Fitchburg, Massachusetts, August 3, 1958

During these thirty years your association has come to serve some 4,000 farmers in several States. If U.C.F. had not given good service, good quality and good prices it would not have merited this fine support.

How did you do it? Did it come painlessly because you were a cooperative, or did it come because you used a cooperative wisely to work in your behalf? The latter is of course the real answer. The strength of a cooperative depends upon what goes into it -- in leadership, in understanding, and in support.

I have always been interested in how cooperatives grow, and I have dug a little into your history before coming up here. It's a thrilling story -- how you started from scratch to market a few blueberries; how you expanded horizontally to cover several commodities in several States; how you diversified your operations into the purchase of feed and other supplies and into the marketing of eggs, poultry and broilers; and how you have expanded by vertical integration so that you provide well-balanced services on production, purchasing and marketing.

When you started, to quote your first President, Matti Maki, "We had no thought-out plan to organize larger numbers nor develop activities other than marketing berries. Our first modest success pushed us on."

There is nothing like success to push us on, and I am glad to see that success is still pushing you.

However, great cooperatives are not built without great effort -- and your record shows that many fine people have helped make possible the fine organization you enjoy today. Among them was Otto A. Leino who, as your first part-time manager, was paid the magnificent salary of $5.00 a week, and Frank Aaltonen, your first full-time manager who got you started on a good business basis. Much credit can also be given to William Marttila, the chairman of your first by-law committee for, under his leadership, the legal foundation was laid for an expanding organization.

I was much impressed with Mr. Marttila's comment at the time of your twenty-fifth anniversary, that the most valued reward of his life came from his association with the United Cooperative Farmers, although he had never been "on its payroll." It is significant that your first by-laws pioneered in providing that each local should "have as many votes as the number of shares it owns, provided that there were 25 members for each share, or the major portion thereof," whereas the "State officials then contended that each local have one, and only one, vote, no matter how much money had been invested or how many members the local had." It is significant that Mr. Marttila and the other members of his committee stuck to their guns for what they considered a "fair and just" principle -- regardless of what others might believe to be the proper cooperative way.

It's interesting to trace the record of your growth. For the first few years it was slow but sound. In 1930 your sales reached $128,011, with savings of $2,821. Five years later, in 1935, sales had reached $491,039, but savings were only $2,606. Volume began to grow about that time, with extension of operations into marketing, and by 1940 sales had reached a million dollars and savings were $11,624. In the next ten years sales increased more than fivefold to $5,575,000, with savings of $110,694. Since then sales have almost doubled, and savings for 1957 were $152,242.

I have recorded these figures simply to reflect the fact that growth in a well-set-up cooperative is cumulative. If the foundations are well laid and if sound business principles are followed, growth follows like compound interest.

In referring to your savings, I realize that savings in dollars may not reflect the full benefits provided by a cooperative. While your savings in dollars over the thirty years of 1 2/3 million dollars are impressive, it is important to recognize the intangible advantages you have given your members in providing them with supplies of good quality, the kind of services they prefer, an outlet for their poultry and eggs, an influence on prices charged and received. Your savings might have been larger if you had followed a different price policy -- but you have wisely preferred to give your members the benefit of your operations in prices paid and received and in quality and services.

In preparing my notes for this occasion I talked with Arno J. Hangas, your former General Manager, who is now working with us in Farmer Cooperative Service. Arno is proud of your achievements. He told me that your "directors and the membership have learned to take new steps instead of being satisfied to continue operations as they were." He told me that U.C.F. was one of the "first in New England with bulk feed distribution;" that U.C.F. has had the "courage to struggle with the problem of poultry plant operations -- a service tried and given up by a number of larger organizations." Arno also feels that U.C.F. has done a very creditable job in keeping members informed. I agree, for I know what a good job Gardner Norcross is doing as Editor of your Cooperative Farmer.

Some evidence of our respect for your organization is the report that Farmer Cooperative Service has just issued which uses your organization as an example of what can be accomplished by economic integration.

A Salute to Finnish Cooperators

Your fine record as an organization is not surprising in view of your Finnish heritage -- for no country has had a finer cooperative development than Finland. You have demonstrated in this country -- what your fathers and brothers have been demonstrating in Finland -- that cooperation can help make happy homes and prosperous people. It is not surprising that your General Manager, Ensio Nuppola, could so easily and quickly transplant himself from cooperative work in Finland, for you are striving to do in New England what cooperators are striving to do in Finland -- make better cooperatives.

I would like to stop a minute to pay tribute to the cooperatives of Finland, by reading a few passages from a report just issued by the Horace Plunkett Foundation on Cooperation in Finland.

Some of the facts that impressed me are here quoted:

"Finland is one of the two or three most cooperatively developed countries in the world . . .

"Ninety percent of Finnish farmers are in some degree connected with cooperative activity.

"One characteristic of Finnish cooperation is its strongly centralized organizations. It is not that the democratic structure, essential to all cooperatives, has been compromised, but that it has been made less direct and immediate by a number of devices . . . The Finnish movement has been particularly successful in sorting out the different types of responsibility involved in cooperative control, distinguishing between policy-making, supervision and management, and finding for each a distinct and appropriate organ."

Cooperatives in Finland "not only have a high standard of efficiency and style, but a perpetual readiness for advance and experiment, even when it means taking considerable risk."

The report closes with this paragraph:

"The total impression is of great energy, resource, complexity, daring and style, a masterful handling of wide fields of national economy and in retaining a position of power and responsibility in national life to which only a very limited number of cooperative movements have elsewhere attained."

What has been accomplished by cooperatives in Finland -- must be an even greater challenge to many of you of Finnish ancestry than it is to those of us with different backgrounds.

Are There Any More Cooperative Pioneers?

Now I wish to discuss a question with you. "Are there any more cooperative pioneers?"

I thought of your organization when this question was raised at a cooperative meeting a few weeks ago and I wondered how this question would strike you.

What do we mean by pioneers? Do we mean those men of dauntless spirit who got things started?

Are the pioneers all gone from America? Are there more pioneers in other forms of business organization than there are in cooperatives? Have the organization men taken over? Is pioneering a stage of America's past?

I think the answer depends on how we define pioneer and what we mean by pioneer. Many of us have a mental image of a pioneer as an early settler who carried a rifle and fought Indians. To me the image of a pioneer is that of a man who is unsatisfied with the present and is trying to make it better.

If we take that definition of a pioneer, I think that there are lots of pioneers still left in the world.

All of us have known cooperative pioneers. I have been privileged to know some very great ones, both in this country and abroad, but I won't stop to name them. When one starts to name cooperative pioneers it's hard to stop. Many people in cooperative jobs today are pioneers in the finest sense of this word. They are blazing new trails. Many young people, moreover, are real pioneers coming along.

How then do we keep the pioneering cooperative spirit? I believe that the answer is that we must train it. How do we develop cooperative pioneers? It seems to me that we must inspire cooperative leaders to be cooperative pioneers. We can help make them pioneers by recognizing cooperative accomplishment, by showing that we appreciate unusually good cooperative service.

We like to think of cooperatives as pace-setters. We know that many cooperatives have been pace-setters in improving quality, in improving service, and in making savings for farmers. However, some people question whether cooperatives are still pace-setters. Your association is part of my answer, and I can name many other organizations in American that are doing a pace-setting job today. Cooperatives must continue to nourish the pace-setting spirit.

One of the greatest business corporations in America proudly boasts that "progress is our most important product." This organization has made pioneering a way of life. They spend millions of dollars on research to keep out in front. This is a good slogan, but it takes a good organization to live up to it.

Maybe it's a good thing that some of our valued pioneers are no longer with us -- for new times call for new men. Every period calls for fresh pioneers -- pioneers adjusted to the conditions that confront them.

The Rochdale pioneers served their function. They gave us a great legacy in certain principles that we still cherish, but we can't blindly follow the Rochdale pioneers and do everything as they did under the conditions that confronted them. This doesn't mean that we should disparage the Rochdale pioneers for being old-fashioned. We should, however, disparage those who follow their precepts blindly in the face of changed conditions.

I recently read an article by a man who took the position that the trouble with cooperatives was that they still tried to live up to the Rochdale principles. To make his point, he assumed that cooperatives were much more doctrinaire than I know them to be. If cooperatives contented themselves with some of the so-called principles that he attributes to them, they would be greatly handicapped in meeting business competition today.

For example, he feels that cooperatives have made a fetish of treating everyone alike. He overlooks the fact that most cooperatives have found from experience that they cannot treat everyone like a robot rather than as an individual, although they can treat everyone without favoritism. They can set out principles fair to one and all. The attempt to treat everyone exactly like everyone else without taking into account size of farm or services used is not necessarily good for cooperatives, because anything that is not good from a practical business standpoint is not good cooperation.

We have had to liberally interpret our Federal Constitution to keep it up to date. I recently saw a statement to the effect that while no one would change the words in the Declaration of Independence, few would deny that it does need re-interpretation for each successive generation. Likewise, the Rochdale principles have to be continuously re-interpreted in terms of a constantly changing world.

It's the spirit of the Rochdale pioneers that should inspire us -- their rugged determination to build a new type of economic institution on the idea that users rather than owners should determine how the business is run and should benefit from it in accordance with their use of it. That idea was a pioneering idea in 1844 and it is still a pioneering idea in 1958.

Many years ago I visited the little Rochdale store on Toad Lane and while there I tried to imagine the conditions of over 100 years ago when it was just getting its start. It was like trying to imagine the conditions at Plymouth Rock when the Mayflower landed. I could see it all in my mind's eye, but it was obvious to me that I had to use imagination to realize that I was not in a different world. All power to the memory of the Rochdale pioneers and may the spirit of Rochdale with its good sense and rugged optimism long continue to inspire us.

But today we are living in a different world. What cooperative principles should still inspire and inform us? I think we can identify several.

The first of these is that members should have control on a democratic basis. The one-man, one-vote principle is not old-fashioned. Secondly, cooperatives should be operated for the benefit of those served, and savings should be returned to patrons in accordance with their use of its services. Thirdly, capital should be paid a fixed return. The members who use the cooperative should have the sole claim to any savings that are made. Fourthly, a cooperative should do everything possible to advance the welfare of its members. It should stand for high standards of business practice which promote community prosperity.

I believe also that operating efficiency is a must for a cooperative organization. It should be accepted as a basic over-all principle that a cooperative should have a sound business structure, good management, an adequate financial plan, proper direction, and good membership support. All of these are essential to make cooperatives mean something.

When I told a public official from Massachusetts some weeks ago that I was going to address your annual meeting, he said, "You will find that U.C.F. is a true cooperative. The members believe in cooperation. They support their organization." This was a fine compliment to you and I pass it on.

Support for an organization is a measure of its success. But we can't make a fetish of cooperative loyalty. Just how important is loyalty? How far can it be carried? Can we expect members to support a weak, inefficient organization? If we place too much emphasis on loyalty, we may simply subsidize inefficiency. It seems to me that we should stress the fact that an organization should earn the loyalty of its members. If it's that kind of organization, the members will be loyal and their loyalty will help keep the organization on its toes.

I know that many of you are members. What you do determines the kind of organization that serves you. Do you select the best men to be your directors? Do you meet your responsibilities as members? What do you want to get out of your cooperative? How much are you willing to put in to get what you want out of your cooperative? How much do good service, savings, fair treatment, mean to you? How much does the social side of cooperation mean to you? By your actions you will determine the kind of cooperative that you have.

Some years ago I undertook to write "a creed for cooperative members." I felt that such a creed, if accepted, would do much to help establish the meaning and principles of good cooperative membership. I would like to quote this creed to see how it strikes you. Is it too idealistic? Is it practical? How would you change it?

"1. I will keep myself informed on the affairs, problems, and methods of my cooperative so as to be an intelligent and constructive member.

"2. I will exert my influence to see that my cooperative has the best possible directors and officers in terms of general competence and integrity.

"3. I will faithfully support my cooperative with my patronage, and encourage my friends to use it, because in volume there is strength.

"4. I will help build and maintain my cooperative by contributing my share of essential capital.

"5. I will insist that full information be provided me on the operations and financial condition of my cooperative, based on accurate accounting and proper auditing.

"6. I will not expect miracles from my cooperative, but I will insist on receiving from it honest values and efficient services.

"7. I will refrain from asking my cooperative to give me favors in the form of credit or other special services.

"8. I will take pride in my cooperative and use my influence to see that it assumes its fair share of community responsibilities.

"9. I will stand by my cooperative in its days of adversity and help protect it from weaknesses which come with prosperity.

"10. I will always remember that my cooperative is ME, and others like ME, and that its behavior is a reflection of MY behavior."

I have never had the opportunity of visiting your society before -- but I have long had an interest in what you are doing. Representatives of the Farmer Cooperative Service have worked with your management over a period of years and they have always brought good reports back on the friendliness of your employees and their go-ahead spirit. Your record is one that you can be proud of. In many ways it resembles that of the Rochdale pioneers for here, likewise, is a group of determined men who dealt so well with problems at the beginning that their seed increased.

Your organization started small and expanded by sheer merit. You have carved out a place for yourselves in the business life of New England. You have brought respect to your Finnish forebears. But at the same time you have also freed yourselves from the clannishness of being a minority group. An expanding growing organization cannot nourish itself only from its taproots. It must throw out other roots and branches. This you have done.

The history of your organization shows that you have built soundly, but that you have been willing to dare -- to strike out into new fields. Your venture into broiler financing and marketing bespeaks a willingness to accept new conditions and adapt to them.

Cooperation, if it is to thrive in America -- must be an expanding type of organization. This was one of the tenets of the Rochdale pioneers. They looked upon the whole world as their oyster. This must be one of the tenets of all cooperatives -- the desire to expand, because belief of the members in the form of organization they represent is for the common good.

Let's come back to the question: "Are there any more cooperative pioneers?"

To my mind there are more cooperative pioneers today than ever, for every good cooperator is a pioneer, and believe it or not, we have more good cooperators today than ever before.

We must foster this spirit of pioneering in our cooperatives -- the desire to strike out into new cooperative territory, not at the expense of anybody, but for the service of all.

We are living in a world that is characterized by change. Never have we had so many changes come so fast. It's a time when we must keep our minds open to new opportunities while we hold fast to principles that have been established over the course of history. Everything that is new is not necessarily better than that which is old. Progress will depend upon the blend of the old with the new. Otherwise, the result will be chaos.

Cooperation is a form of business organization. Its ultimate success will depend upon the satisfaction of those served. Thus, cooperatives build good citizenship and a happy community and a happy country. Isn't that a sufficient goal for cooperative pioneers?

FORTY-EIGHT MILES 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I have named this talk "Forty-Eight Miles" for I like to think of every year of your history as a milestone. It means something to say that your Exchange has come 48 miles, gathering strength and experience on the way, since you started down the road in 1910.

I recall the old stone markers on the road up the Sierras which recorded the miles traveled. Sometimes the road was level and the mile posts recorded easy traveling. At times, however, they recorded progress up a steep hill. So it is with every year of your association's history. Sometimes the going has been comparatively easy while at other times, as in the early thirties and during the past year or so, progress is harder to make. However, it is the steep grades that test the stamina of a man or an organization. The difficult years are the ones that really count.

It means a great deal to me to be with you here today, for it brings back vividly the memories of my first trip to Sacramento in the Fall of 1924 to attend a statewide convention of fruit growers. I was then a graduate student in Economics, with the Food Research Institute at Stanford University, and I was trying to find out all that I could about California agricultural cooperatives.

I came up on one of the river boats that left San Francisco in the evening and arrived in Sacramento the next morning, and that was a fine way to travel.

One of my memories of that occasion was a talk on grades and standards by Fred Read, now General Manager of the California Fruit Exchange, and in view of the competence of his presentation his later advancement never surprised me.

I wonder how many of you realize that when I made this trip to Sacramento 34 years ago your general offices were located in San Francisco. I recall very well the interview I had there in October, 1924, with your general manager, T. C. Tucker, one of the great cooperative pioneers in California. So you see I came in almost on the ground floor.

1/ Notes for talk at 49th Annual Meeting of the California Almond Growers Exchange, Sacramento, California, November 14, 1958.

When I started to prepare this talk it occurred to me that I might have kept a record of this early visit to the California Almond Growers Exchange. To my pleasure, in rummaging through my old papers, I found a memorandum which I had addressed to Dr. Joseph S. Davis and Dr. Alonzo E. Taylor, Directors of the Food Research Institute, in which I reported as follows:

> "The California Almond Growers Exchange is interested not only in marketing efficiency but in better production methods. They are striving for production of better grades of almonds, systems of cost accounting, better delivery of product, etc. They have a manufacturing department. Their means of financing through a revolving fund is also of interest."

When I visited the Exchange in 1924 I looked upon it as an old established cooperative organization -- and it was, one of the cooperative models of that day. Yet, think of the changes since my visit. Your total assets were then $2,179,519. Now they are $11,422,359. In modern terms, your facilities then were primitive. Now they represent technical progress at its best.

These things don't just happen. They are the work of men, and I salute you -- as members, as directors, as officers. I salute also Dave Bailey as General Manager, for the conscientious and competent leadership that he has long given you. All working together have made these things happen.

You have learned a lot about agricultural cooperation since 1910 when your organization was formed as a federation of nine small pools having 230 grower members. You have built an organization which is the Gibraltar of your industry. Of this you can be proud.

Before going on, let's pause a minute to recall what your Exchange was like in 1924. It's all recorded in your Annual Report for that year -- which is worth re-reading today.

At that time your Exchange was just starting its manufacturing operations here in Sacramento -- and who was in charge? D. R. Bailey. In his report as Superintendent of Plant and Equipment he said, "The controlling thought at all times is to make the Sacramento plant a credit both with respect to efficiency and appearance. I can frankly state that in my best judgment the prevailing thought of each and every employee in this plant is to make the business a success . . ."

There are many other nuggets in this 1924 report. For example, the Exchange was then just getting a field department set up, but some of the members did not recognize its value. Manager Tucker, in supporting the need for the field department, said: "Three thousand growers can better afford to pay one man for necessary help [to improve their crop] than the decreased return that they will receive if steps are not taken to improve yields and quality."

In reporting for the sales department that year the general manager said: "This department is the heart of the business. To exchange nuts into the highest cash return is the prime object of this association."

Those views are as up to date today as they were 34 years ago.

Another thing that struck me in this now old report was its emphasis on adequate financing. In those days you called your Revolving Reserve the Suspense Fund. This was created in 1920 to provide "liquid capital" and in 1924 the Manager recommended that the 1920 Suspense item be repaid as rapidly as possible.

Manager Tucker closed his report with a few comments on expenses. He said: "The expense of any business can be judged only by the results obtained. There is no yardstick [for expenses] in a cooperative institution excepting an accurate knowledge of the business that can reflect the good or bad from its activities." He finished his report with this sentence: "Your manager has given the best that was in him -- has done it honestly and conscientiously." I would like to see that sentence at the end of every report by a cooperative general manager. It is usually implied but it might mean something to members if this view were more often expressed.

I have gone back into this "ancient" report, not to dig up things dead and past, but to pick up ideas that are still alive. I hope it helps bring home to you the great debt that you have to the early pioneers who fashioned this great cooperative enterprise on such enlightened lines.

Today we are hearing a great deal about the need for economic integration. This is no new idea to you. You have integrated up and down and sideways. You realize that in union there is strength, so you have joined together -- that is, you have integrated horizontally. You know that efficient marketing calls for control over the product from the time it is produced until it reaches the consumer's hands, so you have engaged in warehousing, processing, manufacturing, research and new product development, advertising, trade promotion, and merchandising -- thus, you have integrated vertically.

I doubt whether there is any practical form of economic integration that you have not applied. Your problem now is not so much to integrate as to continually strengthen the integrating arrangements that you have.

As an organization like yours grows into a great institution, you have the problem of maintaining your momentum -- of keeping from becoming self-satisfied, of appreciating what you have, of sustaining your strength, and of finding new satisfactions in your services.

Let us look for a minute at your present situation. In 1956 your industry was enjoying buoyant prosperity, and new plantings were steadily increasing your marketing responsibilities. Today -- two years later -- the economic picture has changed and optimism has given way to sober second thought.

Such questions as the following now seem more pertinent: Can the Exchange assume responsibility for changes in crop conditions? Can the Exchange influence the abnormal yields of foreign competitors? Can the Exchange insure prosperity -- year in and year out -- for the almond industry?

It is my belief that the Exchange is a machine for good years or bad, one that should do its job efficiently under all kinds of conditions. It cannot be responsible for doing the impossible. It cannot insure prosperity for everyone who wishes to produce almonds. It must operate within the law of supply and demand.

Many people expect too much of a cooperative organization. They expect a cooperative to perform miracles that they would not expect from any other type of business organization. This, in a way, is a compliment to cooperatives -- that so much is expected of them. At the same time it can be a handicap for it is impossible to satisfy unreasonable demands.

It is my considered opinion that cooperatives must continuously educate their members on what they should expect from their organizations. This is a job for the directors, the manager, and other paid employees. It is also a job of the members to understand the organization that serves them and to not impose burdens on it that they would not impose upon themselves. What should a member of a cooperative expect from his cooperative? My answer would be: Alert management, full and complete information, efficient service, competent advice, conscientious consideration.

I like to think of the California Almond Growers Exchange as something more than a marketing organization. To me, it is the organized and integrated extension of your almond orchards. I don't think of the Exchange as simply a business located here in Sacramento. Let's not get the cart before the horse. The Exchange is part and parcel of all the almond orchards of all of the grower-members and of all the facilities that are built upon them.

There is a question that I think that you as members should ask yourselves from time to time. What would it be like without the Exchange?

Do we ever fully realize our blessings?

Please do not misunderstand me. I do not advocate that we should blandly assume that the Exchange is a perfect organization. It is a human organization. It can be improved, as everything can. Your concern must be, now and forever, to make the Exchange better. In normal life there is no such thing as permanent satisfaction.

If we took any other attitude we would be asking for trouble. As members, we must demand a high standard of performance from those on whom we place responsibility for management and direction. But, in a cooperative organization we, as members, must help achieve that high standard of performance by doing what we can to contribute toward it. Cooperatives do not prosper by good management alone.

It has long been recognized that continuous membership education is essential to successful cooperation. Continuous education is indispensable to the maintenance of growth in a cooperative, in a business corporation, in a man, or in a nation. If education stands still, ignorance and misunderstanding will take root and soon prevail.

What is a cooperative but a group of men and women working together in a common enterprise. They grow old and die, and if young people do not come in to replace the old, the organization will wither away. Every organization must make a place for the oncoming generation or the oncoming generation will push the older generation and its works aside.

One of the problems of cooperatives is to pass on the spirit of the pioneers who made them possible. This is often called the problem of the second generation member. I remember a talk I had with John Lawler, General Manager of the Poultry Producers of Central California, in 1941. At that time he was very much concerned with this problem: "How," he asked me, "can we get new members to realize what it took to build our association and what it means to keep it?"

Dr. E. A. Stokdyk, first President of the Berkeley Bank for Cooperatives, and a good friend of the Exchange, dealt effectively with this problem in an article he wrote in 1942. He said, "Members must own their cooperatives anew if they would keep them." He held that the new members must be brought in as full partners so that they would feel that the organization was as much theirs as their fathers. He saw membership functioning on the revolving fund principle -- with the new members replacing the old and taking over the responsibilities of the old so that an organization would be continuously active and up-to-date.

I sometimes wonder if we have paid enough attention to the history of our cooperative associations. How can members realize what a cooperative stands for without some knowledge of the efforts that have made it possible? What would our nation be like if we ignored our history? If all of our history were washed away could we do as good a job overnight in governing ourselves? For example, doesn't it mean something to all of us that a record was kept of Lincoln's Gettysburg Address?

Many business organizations have waked up to the value of a history of their organizations. For example, Sears, Roebuck and Company has done an outstanding job in presenting its history -- not just for the fun of having the history but because it is good business to have it.

You have some of your history preserved in your attractive brochure, "Almonds from California," and much of it is imbedded in your Annual Reports. However, I hope that sometime you will have a history prepared that will tell the full and complete story of your very significant accomplishments.

This kind of information can give depth and meaning to a cooperative. It can help members, directors, employees and the public better understand and appreciate the character and worth of a cooperative.

In preparing for this talk, I asked myself, how has the California Almond Growers Exchange come to be the great organization it is today? What has been learned that is imbedded in the principles and practices of the Exchange today?

Let me share my findings with you.

1. You have learned that the centralized form of organization best suits the needs of your industry. The federation of pools that you had until 1922 did not give you a well-articulated industry organization.

2. You have learned that the revolving fund method of financing is practical. It has given you a very strong financial base for your operations, and it has been equitable in its effects.

3. You have found that a membership contract is necessary to establish the relations of the member to his association, but you have also found that this contract must be geared to the needs of your growers. You have found that the five-year contract with a withdrawal period at the end of the fifth year is satisfactory but that terms of membership must be staggered to insure a continuously growing organization. You came to realize in 1933 that a general re-signup coming in a bad year when discontentment was rife could result in decisions that would imperil the life of your association, and that one vote per member regardless of tonnage gave you best member relations. You also learned that one-year contracts with your members did not provide continuity for your merchandising operations.

4. You have found that you need all kinds of producers -- large and small -- to achieve volume necessary for operating efficiency and leadership in industry affairs. We are hearing much today about the need of catering to the large producer, but should we not cater to all producers? The big need the small and the small need the big to achieve maximum organizational strength. In a cooperative the program must be equitable and attractive to all producers.

5. You have learned that control over a substantial fraction of the California almond crop gives you a necessary degree of bargaining power. It gives you the capacity to merchandise almonds effectively.

6. You have also learned that a cooperative cannot obtain a monopoly position and fix prices. While you can get for your members the full value of their crops in terms of supply and demand conditions, you cannot roll back the law of supply and demand. I remember a conversation with Paul Armstrong, formerly Manager of Sunkist Growers, a number of years ago in which he said: "We cannot control the amount of fruit turned over to us for marketing. Our job is to market to greatest advantage this fruit." You have learned this same lesson. A cooperative doesn't need to have 100 percent control of a crop to be effective -- although a good share of the crop is essential to get advantages of volume operations, orderly marketing, and low-cost administration.

7. You have found that you must employ competent employees with first class technical and management abilities, and carry on continuous employee training programs.

8. You have found that a competent board of directors is essential to effective grower representation and administration. The steps you have taken to insure democratic election of competent board members gives permanent strength to your organization. Incidentally, I have also read many of the detailed reports made by your General Manager to the Board of Directors. I know few organizations where the directors are kept so well informed.

9. You have found that your members must be kept up-to-date on all of the problems of your organization. Your publication, "Almond Facts," started in 1936, enables your members to understand the problems and procedures of your organization. If any member doesn't understand how the Exchange works, it is his fault. All the facts are there for the asking.

10. You have learned that research is indispensable to progress. As long ago as 1937 your Exchange pioneered in packaging edible nuts in cellophane. In 1947 you adopted photoelectric sorting machines for removal of off-grade shelled almonds. You have continuously carried on and supported research on your products.

11. You have learned that you must adopt new methods and procedures to reduce costs. Your inauguration of grower deliveries in bulk boxes in 1953 has given satisfaction, as evidenced by the fact that 40 percent of your tonnage is now so delivered.

12. You have learned the importance of good commercial and public relations. You have realized that you can't have too many friends for your organization.

13. You learned long ago that you had to process your product to find and build market outlets.

14. You learned that you could not ignore the cultural problems of your growers -- that the production of standard products of good quality is essential to their effective marketing.

15. You learned right at the beginning that you needed to identify your product with a brand name and symbol. The Blue Diamond label has become the hallmark of California almonds and a merchandising tool of great value. You also found that advertising expenditure can expand consumer sales when supported by a product of sustained quality.

16. You learned that you must provide storage sufficient to permit effective marketing over a period of time.

17. You found that you needed a method of measuring exactly the size and quality of each grower's delivery to assure payment for superior production. Mechanical test-grading introduced in 1931 was a great step forward.

18. You found that centralized processing required milling-in-transit privileges and you obtained such accommodations from the rail carriers.

19. You have learned by trial and error and by study the economics of your industry. You know that price is made by many factors which together make up what is known as supply and demand. It is not simply your state production of almonds that makes up supply. It is also the production in foreign lands. It is also the supply of competing nut crops. Demand is not simply the spending power of consumers. It is the amount of almonds people will buy in this and other countries. It is no easy task to determine what the price of almonds will be -- in the face of uncertain crop statistics, changing economic conditions, and many other unpredictable factors. Yet the Exchange must know the factors which determine prices so as to take full advantage of them.

20. You have learned that over the years the Exchange must get as much or more for the almonds of its members as non-members obtain to hold members' support.

These are some of the things you have learned, and if past experience means anything it means that you will keep on learning how to do a better job.

Let me close with this question: Is the Exchange as essential today as in the years gone by?

I know that times change and that cooperatives, like other organizations, sometimes lose their usefulness. You have many highly difficult problems in California -- costs are high and sometimes it's hard to see around the corner.

Yet, do you know of any other system which will give you the bargaining power you need at this time when buyers of your products are increasing in size and are becoming fewer in numbers?

Can you envisage a better method of organization for helping you on your marketing problems -- one under your own control that you can shape as circumstances require?

It has been a great pleasure to be with you again. You can be proud of your past and confident of your future.

THE EFFECTS OF INTEGRATION ON MARKETING OF FARM PRODUCTS 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

To work in the present we must study the future. I am on the way home from California where the future is explosive. A friend at the University of California told me of a population projection which anticipates 75 million people in California by 2020 -- just 62 years from now -- with only 1 million on farms. This kind of growth can create many problems in the production, marketing and utilization of agricultural products.

While on the West Coast I picked up a copy of Volume I, No. 1, of the California Management Review, published by the Graduate Schools of Business Administration of the University of California. I was especially interested in an article by Edwin Teller, "an adventurous nuclear physicist," and a key figure in the development of atomic and hydrogen bombs. He writes: "The population which in 2050 may be 7 billion will rise by 2150 to more than 20 billion people. I think there will be enough food and still enough energy, but there may not be enough room at that time. In other words, the multiplication of human beings is likely to lead to this problem: How will we live with each other?"

Vertical Integration -- "A Fission-like Force"

It is appropriate that we now turn to vertical integration which has been described as "a fission-like force turned loose in today's farm products markets." 2/

To make my assigned subject, "The Effects of Integration on Marketing of Agricultural Products," more manageable let's change it to "How Integration Affects the Marketing of Agricultural Products." We will take integration as a fact -- especially vertical integration -- and see how it influences marketing.

For our purpose, vertical integration employs a new approach or the intensification of an old approach in the production and distribution of farm products. The basic idea is that two or more successive steps in these processes are controlled or coordinated by one organization. We may say that through vertical integration the methods of big business are now being applied not only to the marketing of agricultural products and the purchasing of farm supplies and services, but also to the production of farm crops and livestock.

1/ Talk for 1958 National Marketing Service Workshop, Springfield, Ill., November 20, 1958.

2/ See Kenneth Hinshaw, "The Challenges in the Vertical Integration of Agribusiness . . . to Information Specialists," American Cooperation, 1958.

As small independent businessmen, farmers have long produced for a market which they could not control. A whole set of marketing institutions grew up to handle their products; including local handlers, terminal sales agencies, grain exchanges, and livestock commission firms at union stockyards. In the typical situation the farmer relied upon the market made by local dealers who assembled the product and shipped it to terminal markets. The terminal marketing agencies took the product from the local agencies in much the same way, and the competition of buyers and sellers determined prices.

This elaborate system is now on the way out. George Mehren of the University of California has caught the spirit of the times in this statement: "There are old channels of marketing, old methods, old types of organizations which ten to twenty years ago were virile and vigorous and big, and they are not here any more." Later in this same talk which he gave in January, Mehren said: "I think the day of the old open market where any kind of product that happened to get produced would find some sort of home some place -- is gone." 1/

"Vertical integration" is the term commonly used to characterize the change that is taking place. It has caught the popular fancy, partly because it is an expressive term and partly because it can be used by so many people in so many different ways. However, with the focus given by "contract farming," most everyone now understands that "vertical integration" ties together the production and marketing of farm crops into one organization or under one control. When we refer to agriculture as vertically integrated, we mean that farming is meshed into our industrial system -- that it is less and less independent of and more and more an integral part of other industries. 2/

John H. Davis has emphasized this interdependence of agriculture and business with the expressive hybrid word, "Agribusiness," which connotes the business complex related to farming. He uses this word, which is related but not synonymous with vertical integration, to embrace the agricultural business of farmers and all the suppliers of farming, the manufacturers and distributors of farm machinery and equipment, feed, fertilizers, and other production supplies, and of all the agencies which handle farm products in some form, the local handlers, the processors and manufacturers, the exporters, the wholesalers, and the mass retailers. Many of these concerns are organized and operated on large-scale lines. 3/

1/ See "The Changing Face of Food and Farming," transcript of an address to United Fresh Fruit and Vegetable Association, January 28, 1958.

2/ For more complete information see "Contract Farming and Vertical Integration in Agriculture," U.S.D.A. Information Bulletin No. 198. See also my talk, "Cooperatives and Integrated Agriculture," Georgia Cooperative Short Course, Athens, Georgia, June 23, 1958. (Mimeograph)

3/ For comprehensive explanation see "A Concept of Agribusiness," by John H. Davis and Roy A. Goldberg, Harvard University, 1957. "By definition, agribusiness means the sum total of all operations involved in the manufacture and distribution of farm supplies; production operations on the farm; and in storage, processing, and distribution of farm commodities and items made from them." (p. 2)

These large-scale firms not only are drawing farming into their own orbits, but they are integrating farming into their operations so that farming is carried on to meet the ends of their integrated businesses. Farming thus tends to become a feeder industry to the processing, retailing and other industries which deal with agricultural supplies or products.

The significant fact is that integration, which is constantly growing throughout industry, is now enveloping many aspects of farming. Farming in the future cannot resist the economic pattern of other industry. It cannot remain a small-scale independent industry and deal with large-scale integrated industry on an equal basis.

Although this trend toward integration has been discernible for some time, it has only recently become a matter of concern. As in so many other situations, we don't become aware of a trend until its effects become apparent, or until its meaning is interpreted by observant analysts. For example, few people recognize the coming of a business recession until it is a well-established fact.

The trend toward vertical integration did not come initially from a conscious design. It came as a result of changes made by firms to improve their position in the competitive struggle and it represents the action of many businesses rather than of just a few.

It may be helpful to differentiate here between three forms or stages of vertical integration in production and distribution of farm products: (1) Integration of successive steps in market distribution; (2) Integration of distribution with processing; and (3) Integration of manufacturing with assembling and even production of farm-grown materials. The first form of vertical integration is of long standing. The second and third forms are more recent, and it is here that the distinctive character of the new integration movement is to be noted.

Moreover, vertical integration may come from any direction. It may proceed either from farmers or from traders, processors, and manufacturers. If the vertical integration starts at the farm it can be called "ascending integration," while if it starts at the processing or distribution level and works down to include the farm it can be called "descending integration." No invidious comparison is here intended. Both "ascending" and "descending" forms of integration can serve the interests of farmers if they are organized to make use of them and if farmers make certain that they are operated equitably in their interests. 1/

1/ I am indebted to Dr. E. G. Nourse for these expressive terms.

Contracts Open Farms to Integration

Until recently, vertical integration, for the most part, stopped at the farm gate and didn't come in. However, the force was too powerful to resist. Business firms saw the desirability of controlling farming decisions and operations. They found that they could do this by use of contracts which would provide for production by farmers according to agreed-upon specifications.

Such contracts have long been used in the fruit and vegetable processing, sugar beet and other agricultural industries, but until recently they had not been generally adapted to the operation of poultry and livestock production. Then came along the spectacular development of the broiler industry, largely as a result of contracts with producers entered into with feed dealers and processors.

Under this plan, for illustration, a feed dealer working jointly with a processor contracts with a farmer for the production of broilers according to his instructions and specifications. The feed dealer furnishes the chicks, feed and technical management direction, and assures the producer a return per bird for his labor, facilities and direct supervision of the broiler enterprise.

This plan has appealed to many producers who were glad to produce for a guaranteed income. Within a few years it created a specialized broiler producing area in the Delmarva Peninsula, and it has since spread to Georgia, North Carolina, Maine and several other states. Now we have broilers produced to a large extent under assembly line conditions, with the farmer producing them on almost a piece-rate basis. It is something like the old pre-factory farm-out system under which clothing was manufactured in homes. In other words, the tailoring work was farmed out and done in the home rather than in a central plant.

There may be a further parallel in that the home production of broilers may be supplanted, in turn, by broiler factories. In a current publication there is an article which describes a large broiler producing plant in Idaho which has an annual broiler crop capacity of one million birds. It is designed to supply a chain of 44 food stores. This plant is not a farm. It is a broiler-producing factory. Only seven acres of land are used and the four men who operate the plant live in four houses on the premises. The birds are even supplied with music as, apparently, happy birds grow fatter faster. Here we have a perfect illustration of vertical integration carried to its ultimate -- the function of the farmer has been absorbed by the chain store. It is hard to call a broiler plant like this a farm, but the question may well be asked, "Is this the farm of the future?." Many people think it may be for certain kinds of farm enterprises.

Should this method of broiler production spread, there will be few broiler-raising farmers to worry about. Contract production of broilers will then be unnecessary, for the farm will be fully integrated into an off-farm business and will be producing without the need of a contract.

I don't want to be too pessimistic just at this point. There is an old adage that it is dangerous to put too many eggs into one basket, and it may be just as dangerous to produce too many birds in one broiler plant. A broiler plant such as I have described calls for a great deal of capital and management ability, and involves a considerable amount of risk. It is a somewhat inflexible type of operation, and it might be hard to manage profitably during a period of general broiler surplus. Without passing judgment on the economic merit of this kind of enterprise, we must recognize that business control over farmers is spreading. Whether we like it or not, we are now seeing a transference of the broiler contract pattern to eggs, pigs and other products.

It is important to realize that vertical integration is a broad economic force, while contract farming is a manifestation of this force at the farm level. The two terms are not synonymous, for contract farming is but a species of vertical integration. While integration is pervasive throughout industry, contract farming is found only under certain conditions and in certain places. Through contracts specific farming operations are brought under the control of other business firms: that is, they are integrated with them.

In this talk I am concerned with the implications of vertical integration in its broad sense on the marketing of farm products. It is already so well established that our problem is not to stop it but to direct it to best advantage. Its power can be used for farmers if they will grasp the controls of integration through better organization.

Unless farmers substantially control the processes of integration as they relate to the production and marketing of farm products, the days of the family farm as an economic unit are numbered. Farming necessarily is going to be more and more integrated with other industry, and if farmers do not control or participate in the control of the integration, integrating agencies from the outside will control or largely control the farmer's operations. I am not trying to be dramatic, or to scare you with a bogey-man. Vertical integration is going to stay with us and that may be all to the good, for it can be used to strengthen farms as independent business units so as to improve the vitality of our agriculture.

Is Our Marketing Machinery Obsolete?

Integration has already come so far and so fast that most of our agricultural marketing literature is out of date. For example, many of the articles in the 1954 Yearbook of Agriculture on "Marketing" would need to be recast or completely redone to cover the implications of present-day developments in vertical and horizontal integration if they were to be rewritten today. In the 1954 Yearbook, integration was only incidentally treated, and contract farming was largely ignored. "Agri-business" had not yet been identified as an area for specialized study.

No revolution can be fully understood by those in the midst of it. We have no scholarly historical studies to explain clearly what is now happening. We must therefore do our best to direct the forces of this revolution constructively with whatever insight we can muster.

This fact is clear. Our whole economic system is becoming tightly coordinated through larger and larger firms. Look at the pattern in food retailing, with the growth of chains and supermarkets. Look at the large dairy firms like National Dairies, Borden and Foremost. Look at General Foods, Swift and Company, and the large chemical corporations. Look at the almost completely integrated major petroleum companies. All of these concerns deal with farmers or farmers' products. They are examples of "descending integration," or integration downward toward the farm.

On the other side, look at the large cooperative marketing organizations, which represent "ascending integration," or integration from the farm upward. Many of them are also large concerns: Sunkist Growers, Land O'Lakes Creameries, Grain Terminal Association, the G.L.F., the Southern States Cooperative, The Cotton Producers Association, the Washington Co-operative Farmers, the Poultry Producers of Central California, and many others. These cooperatives have grown large because it takes large integrated organizations to serve the needs of farmers today.

These firms operate in much the same way whether cooperative or non-cooperative, through the employment of professional managers. They differ mostly in the way the benefits are distributed to those who ultimately own and control them. I would like to stress this point here: Integration, like any other economic force or process, can be used by farmers if they are properly organized.

Marketing in a vertically integrated firm, whether cooperative or non-cooperative, becomes an integrated activity. The product is sold only once, at the end of the integration. A chain store system acquiries supplies, processes them, transports them and finally sells them to the consumer. All of the operations of the firm are planned and directed toward the final transaction with the consumer. All of the functions are internal functions.

Thus, when we have integrated organization, we by-pass many of the marketing institutions that have been built up for the use of non-integrated businesses. This explains the decline in the significance of terminal livestock yards, terminal fruit auctions, and other agencies which are not so needed any more, and which in some cases have become actually obsolete.

As a result, we lose our old price-making mechanisms. It is harder to say what products are worth at any stage in the marketing process. Marketing becomes more concerned with the question of matching market power with market power.

This is not a brand new problem in agriculture. As John K. Galbraith has pointed out in his book, "American Capitalism," (1952), farmers have been struggling since Colonial days to develop "countervailing power for agriculture." This has led to attempts to set up horizontally integrated cooperative organizations strong enough to achieve some control over supply and provide a base for vertical integration. 1/

Sapiro held that "the iron-clad contract" between the producer and his organization could meet this problem, but as long as these contracts were voluntary complete control over supply could not be achieved. For a time there were advocates of "compulsory cooperation" who favored forcing all farmers into a cooperative to control supply if a majority were in favor of it. This idea, in turn, gave way to the crop control program of the thirties.

However, it is proper to point out that there has been a great change in the strength and character of cooperative organizations since the twenties when Sapiroism was rampant. Farmers are more inclined to work together through cooperatives, and the management, financial standing, and business standards of their cooperatives are much higher. Experience has demonstrated what can be reasonably done. In fact, many large cooperative marketing enterprises are more than able to hold their own with competitive concerns in merchandising efficiency.

The experience of cooperatives of the old Sapiro type indicated that farmers could not generally control production through contracts. Is there any more reason to believe that other forms of corporation can do a better job of controlling production through contracts? Can they control production over a period of time? Is it to their advantage to do so?

1/ For more complete information see my article, "Cooperative Expansion Through Horizontal Integration," Journal of Farm Economics, November 1950.

The cooperative form of organization at least is motivated by the needs of its members. The motivation of competitive corporations is to serve stockholders who are generally non-farmers. In the long run, this difference may be of controlling importance. While farmers may resist the efforts toward integration by other firms, they may be willing to accept integration by their own organizations on their own terms.

There is the basic question of why integrate by cooperatives. It is true that the integrated producer must accept restrictions which regulate his operations, no matter how he is integrated, but in a cooperative he can capture his share of the benefits which accrue to the integrating firm and thus strengthen his position as an economic producing unit. In a cooperative he helps set the terms to achieve the ends of the integration through self-discipline, while otherwise they are imposed upon him. 1/

How Integration Changes the Marketing Climate

As integration progresses it influences the climate of marketing. Some of its results are becoming apparent.

1. New marketing institutions are making established marketing institutions obsolete. Farmers are more and more producing to meet stipulated market specifications.

2. Sales agencies such as commodity exchanges, terminal auctions, and futures markets are losing some of their importance as pricing mechanisms.

3. Firms engaged in marketing are growing in size and performing a larger range of marketing and related functions.

4. Risk bearing and producing decisions are being transferred to the marketing firm.

5. Financing is being tied more closely into marketing as more capital is needed to control and direct the movement of the product.

6. Production specialists of integrated concerns are increasingly directing farmer production and marketing operations.

7. There is a growing concentration of power over agriculture by those not concerned with farm welfare as such. Thus marketing institutions -- unless cooperative -- become less and less responsive to producer interests.

8. Marketing and production research is increasingly being directed toward the strengthening of integrated business systems.

1/ It is here significant, that "independent grocers" have been able to integrate cooperatively and thus preserve much of their independence.

These trends are rapidly changing our agricultural environment and the agricultural institutions which have grown up over a long period of years to serve a different type of agriculture. 1/

The Larger Question -- A Free Agriculture

It seems to me significant that there is a growing apprehension in agricultural circles that "specification buying" of high quality farm products to meet the needs of mass markets "will lead inevitably to specification production -- either under contract, as in the broiler industry, or in farms large enough for their operators to make their own deals with large-scale buyers." As Sherman E. Johnson and Kenneth L. Bachman recently said, "The need for production of products of specified quality to meet specification buying cannot be ignored, but the key question is how this need can be met within the challenge of promoting the welfare of farm people and the nation as a whole." 2/

It would be indeed ironical if in the pursuit of efficiency by individual firms we were to lose the kind of total agricultural and social efficiency associated with the family farm type of operating unit which has made our nation outstanding in its total agricultural output and in the satisfactions of farm life.

Integration can be a disintegrating force if it is not harnessed to the needs of both agriculture and business. There is the danger that it will disperse farmers' interests rather than join them together in programs of mutual interest. This is not an empty possibility. In certain areas, farm producers are largely dependent upon the kind of contract deals they can make. Their freedom of choice in production and marketing may be less than they think.

Is it economically sound for farmers to allow themselves to be drawn into diverse integrated units controlled from the outside? Wouldn't it be more logical for them to integrate through cooperatives to obtain better performance of procurement and marketing functions? Many of our strong cooperatives prove that this can be done.

1/ This was foreseen over ten years ago by John D. Black in his challenging article, "Guideposts in the Development of a Marketing Program." Black expressed the belief that the greatest opportunities for increasing efficiency in agricultural marketing lay along the route of vertical integration. Journal of Farm Economics, August 1947.

2/ "Recent Changes in Resource Use and in Farm Incomes," a paper prepared for Conference on Problems and Policies of American Agriculture, Iowa State College, October 2-31, 1958.

I would like to give you an illustration of what I am talking about -- the Poultry Producers of Central California. This organization provides an integrated purchasing and marketing service for poultry producers throughout northern and central California. It is big enough to do a job for all the poultry producers in this area. It can procure feed and other supplies for farmers at lowest possible cost and market eggs for them to best advantage. This organization is large and strong enough to employ excellent management and have the latest in modern facilities.

Its San Leandro plant, which I visited early this week, is a model of automation and labor-saving efficiency. It can handle 2,000,000 eggs a day and keep a record of each egg electronically. It can pack, load, and ship under refrigeration without hand labor. It can direct eggs to meet the large quantity market needs of mass distributors.

What advantage would there be in dispersing this operation?

Before we throw away, or let slip, the old -- let us examine whether the best of the old cannot be used in building the new.

Let us guide the future in the light of the lessons of the past -- or do we now accept Henry Ford's dictum: "History is bunk."

I don't accept it. Over the years we have found out how to build strong integrated cooperative organizations that serve well the needs of producers and consumers. They recognize the individual farmer and help preserve his independence.

I hope that integration will be used by farmers to build these kinds of integrated organizations for marketing -- or at least enough of them to preserve the balance in our economy.

I realize that my remarks have been somewhat discursive. Something big is going on in agriculture, and it is hard to get it into proper perspective. However, the subject is so important that it cannot be ignored, and it seems clear that the way in which farmers and their representatives deal with it -- even though they do not fully understand it -- will determine the type of agriculture we will have for many years to come.

AGRICULTURAL INTEGRATION -- FOR WHOM? 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

Integration -- vertical or horizontal -- is no new thing in American agriculture. The old plantation system of the South, the powerful line elevator systems of the early 1900's, the merchant credit system with its sharecroppers, which has persisted into the present -- these were all manifestations of the process of integration. None of these systems, however, has encouraged the development of strong independent family farm enterprises.

On the other hand, agricultural cooperatives are by their very nature integrated enterprises. For over a hundred years in America they have been the means for joining farmers together to achieve the advantages of large-scale organization. There is no better illustration of an integrated organization than the one I am addressing today. In thirty years the Consumers Cooperative Association has integrated petroleum production and distribution operations from the oil well to the farmer. In fact, the farmers who built the Consumers Cooperative Association soon found that they would have to integrate all the way if they were to serve members with petroleum in competition with the completely integrated major oil companies.

For more than a hundred years American farmers have been endeavoring to build integrated cooperative enterprises, and looking backward we can see that remarkable progress has been made. The contributions that cooperatives have made to the welfare of American farmers and to the nation during these years cannot be calculated. Through cooperatives, farmers have found markets, increased returns for their products, reduced the cost of their supplies, and thus saved billions of dollars that have helped build up farm communities. They have also helped in other significant ways. For example, in the two great wars, which called for great expansion of food and fiber production, the government found that farmer cooperatives could effectively mobilize millions of farmers to meet the nation's wartime needs.

I would like to stress this point -- that integration is no new thing in American agriculture. Integration is simply an economic form of business organization. It is found throughout industry in many complex forms. It has been used in the past by those who would control farming -- and it has been used by farmers to free themselves from control. It makes all the difference in the world to farmers as to who controls the integration. If they do, they get the profits and the benefits. If others do, farmers lose most of the profits and benefits, and much of their independence as well.

1/ Notes for talk at 30th Annual Meeting of Consumers Cooperative Association, Kansas City, Missouri, December 4, 1958.

I am not going to spend much time explaining integration and the terms, "vertical integration" and "contract farming." Most of you know the difference between horizontal and vertical integration, and you also know what is meant by contract farming -- which is a species or form of vertical integration.

The word "integrate" means "to join together." When businesses of the same type are joined together under one control we have "horizontal" integration. Chain store systems are good examples of horizontally integrated organizations. So are federations of cooperatives, such as the C.C.A.

When two or more functions in production and distribution are joined together under one control we have vertically integrated organizations. For example, when a chain store system undertakes to produce the food it distributes it integrates vertically. When the C.C.A. acquired refineries, pipelines and oil-wells it integrated vertically, on its horizontally integrated base.

Now, where does contract farming come in? It is a way of controlling the production and marketing of a crop or of livestock by use of a contract rather than by ownership of the farm. Control by contract is not a new development, but until recently it was only used for a few specialty crops. For example, canneries have long contracted with growers for canning crops. In recent years this method of vertical integration through the use of contracts has had a phenomenal expansion in broiler production and marketing, and it is now spreading rapidly in the production and marketing of eggs and pigs.

If you want more detailed information on the extent and character of integration for various crops and livestock I suggest that you obtain a copy of the Department of Agriculture's recent publication, Vertical Integration and Contract Farming.

There are many, even in agricultural circles, who look upon vertical integration, including contract farming, as the way of the future. However, they do not see that it is a process that farmers can control. These people say that vertical integration through others cannot be resisted, and so they encourage its spread. They say that the old family farm is an anachronism, that it is on the way out. They ask: " What difference does this make as long as our food and fiber needs are met?" They look forward to the time when farming will no longer be considered a separate industry -- when wheat production will be carried on by millers, livestock production by packers, etc., etc. It is hard to see where this thing might stop. Some even think that in the long run farmers will all be working for chain stores serving ultimate consumers. This doesn't concern them. They ask: "Why should we hold on to old-fashioned things like farms and rural communities?"

Farmers have good reason to take this problem seriously. In recent years, business organizations have steadily increased their control over certain types of farming. If they make it stick for broilers, eggs or pigs, where will it end?

How has this situation come about? The answer is not simple, but I will give you a few ideas on the subject. As the big mass consumer food industries have developed, they have made an assured market for large quantities of standardized farm products. To get the kind and quality of product desired they have by-passed the terminal market. This is no new thing. The packing industry went into direct buying of livestock over thirty years ago.

Integration is a way in which an organization can do more things and thus make more profits. Many industries dealing with farmers have found that they can add profits through extending their operations to cover more production and distribution functions.

Integration is also explained by the changing character of farming. As farming has become mechanized and specialized, and grown more complex and required more capital and technical knowledge, the size of farm unit has increased. Large farms are easier for business firms to work with on a direct basis.

In some areas business firms have even found it practical to set up men in business who will produce broilers or other products according to their directions and specifications. These farmers are more technicians than farmers, for they carry out instructions for an assured income, like operatives in a factory.

The cost-price squeeze has also contributed to this kind of integration. Many farmers have felt that they would like to produce for a guaranteed market. If a business firm offers them a guaranteed price they are glad to free themselves from the problems and risks of financing, purchasing and marketing.

There is no simple answer to the question of how integration has come about. We have been having great changes in industrial and business organization during the war and we have had a growth of large-scale enterprises. Many of these enterprises have a great interest in the products produced on farms, for they carry them on to the consumer.

John H. Davis, of Harvard University, has done a great service by identifying the merging relationship of agriculture and business as "agribusiness." 1/

1/ See his article, "From Agriculture to Agribusiness," in January-February 1956 Harvard Business Review, and also the book by John H. Davis and Roy A. Goldberg, A Concept of Agribusiness, (Harvard University, 1957).

In a recent article, Davis writes:

> "I am willing to risk my reputation as a prophet by predicting vast changes in the marketing of farm products during the next ten years. For many commodities we will see virtually complete remodelling of market structures. Basic in all this will be closer and closer linkage of on-farm production and off-farm marketing operations -- a development commonly referred to as vertical integration. Actually, this development will be but an extension and expansion of what is now taking place.
>
> "Whether we like it or not, this type of development is coming. Technology is forcing it. Therefore, to fight against the vertical linkage of functions will become foolish. Rather, we should gird ourselves to meet it and to take advantage of it. I believe we can even turn it into an opportunity if we pursue a proper course.
>
> "What is this proper course? The proper course is for farmers to band together so that they can take the lead in market improvement, development and expansion, even when this involves vertical integration." 1/

In the brief time allotted to me, I want to spend a few minutes on this question: "Can farmers, themselves, integrate their own industry? They have been trying to do so for many years and I think they have made a lot more progress than most people realize. Most people don't realize how difficult it is to integrate an industry as diverse and widespread as farming, starting from the farm level. It takes time to integrate agriculture on a democratic basis, and that is what farmers have been trying to do.

Let's first look at the poultry industry since that is where commercial contract production has been most marked. Can poultry farmers integrate their own industry? They are doing it. In many parts of the country they are even demonstrating that they can adapt and use the contract idea themselves.

The Cotton Producers Association, with headquarters in Atlanta, Georgia, is one of the nation's leading broiler processing organizations. During its 1957-58 fiscal year its volume of poultry products amounted to nearly $16 million, and this represented an increase of 53 percent over the preceding year. This organization has its own feed mills, hatcheries and other integrated services.

1/ See "Farm Organizations in the Future," in World Agriculture, April, 1958.

A few weeks ago I visited the new modern headquarters plant of the Poultry Producers of Central California, at San Leandro, California. I wish that all of you could inspect it for it is the world's largest electro-mechanical egg-grading and distribution plant. It can handle 2,000,000 eggs a day -- quite a basketful. It is an inspiring sight to see the eggs coming from the farm by refrigerator truck to the several-acre plant where they are electronically unloaded; conveyed under refrigeration to the candling line; packaged by automation; electronically assembled to meet orders, and then conveyed into refrigerator trucks for delivery to the market and the consumer. You have to see it to believe it. Here eggs from producers, scattered over a several-hundred-mile area, are marketed in a coordinated way to help thousands of outlets provide consumers with "the freshest product in the fastest possible time." I should also add that this organization is largely integrated in that it furnishes its members with feed and other essential production supplies. Moreover, the members are members in more than name only. They are members bound together by contract to do a business job.

I would like to mention another great West Coast association that I visited on my recent trip West -- the Washington Co-operative Farmers Association, with headquarters in Seattle. The Washington Co-op does the same job for poultry producers in the Pacific Northwest that Poultry Producers of Central California does for poultry producers in California -- and even more -- for it has developed an extensive volume of processed chicken and turkey products -- under its Lynden brand. When I was there, two new products were being added to the line.

Harry J. Beernink, the general manager of Washington Co-operative Farmers, is not apprehensive about integration -- for his association has been an integration pace-setter. He says: "This is no time for negative thinking. There are some who view integration as a calamity. I view it as an opportunity -- for it can be just that." He goes on to say:

> "Our Washington Co-op. has long operated under contracts with its members, providing an integrated service. We expect to continue to broaden our services in behalf of farmers to take care of their major needs -- provide processing and marketing facilities -- production supplies and services -- credit and technical assistance farmers require to maintain in their own hands control of farming. . . .
>
> "I have never had less doubt or more confidence in the direction the Northwest poultry industry will go." 1/

These illustrations indicate what is being done, and what can be done by poultry producers to maintain control of the marketing of their product.

1/ "What is the Future of the Northwest's Poultry Industry?" Washcoegg, November, 1958.

Now, let's take a brief look at what cooperatives are doing to help livestock farmers -- for I know that this is a subject of great significance to you. Here again, much progress has been made. We now have many fine livestock marketing cooperatives in all parts of the nation -- and a few successfully engage in packing.

Cooperative marketing of livestock has been of special interest to me since 1926 when I joined the Brookings Institution to work with Dr. E. G. Nourse, later the first Chairman of the Council of Economic Advisors, on a nationwide study of cooperative livestock marketing. At that time livestock marketing was being revolutionzed by direct marketing, and it was a "hot subject." Dr. Nourse and I came to the conclusion -- in our book, The Cooperative Marketing of Livestock, issued in 1931 -- that livestock producers needed a well-coordinated national system of state and regional marketing organizations. Parts of this broad plan have been gradually put into operation, but much work remains to be done before this dream comes true. The organization that has most fully demonstrated the soundness of the plan has been the Producers Livestock Association of Columbus, Ohio, which Mr. Forrest Ketner, our next speaker, has managed since its formation in 1934. This organization has done an outstanding job in matching supply with demand for the benefit of the thousands of livestock producers who are its members.

It is significant that many other livestock marketing groups are developing programs largely patterned on the success of the Producers Livestock Association of Ohio. They integrate livestock production with marketing in the interest of both producers and consumers.

I have referred to cooperative progress in integrating production and marketing for poultry and livestock since that is where the integration shoe is pinching. A more complete picture on how cooperatives in other commodities are meeting the test of the times will be provided in the January 1959 issue of the News for Farmer Cooperatives.

My studies of cooperatives have convinced me of one thing: Farmers need to take a broader look at integration. Piecemeal integration to meet emergencies will not meet permanent needs. Farmers must develop regional and national systems of integration so that the agricultural industry will have large farmer-owned and farmer-controlled organizations, for large organizations are as necessary in agriculture as they are in other parts of the business world.

Only a few weeks ago I was in a meeting where a man took the position that of course the best way to integrate farmers would be through cooperatives, but, and this was a very important but, the farmers could not develop the managers to do the job. There seems to be a great inferiority complex on the part of farmers with regard to their capacity to develop or get competent management. Even though cooperatives have some of the finest managers that there are in agricultural business, many farmers as well as others find it hard to recognize this fact. Perhaps they have been so long trained by opposing interests to think that cooperatives cannot develop good managers that they have become "brain-washed." It's hard for them to recognize good management when they see it. Organizations like the C.C.A., Sunkist Growers, G.L.F., Land O'Lakes, and hundreds like them, having access to funds and personnel, can develop managers just as good as those of other large corporate organizations. Otherwise, how do you explain their success today?

Integration does not disturb me as long as it does not disrupt the basic unity, or solidarity, of farmers. If integration comes from feed dealers, processors and others whose interests are not primarily those of producers, it is apt to disintegrate rather than integrate agriculture as an industry. These are bold words -- but I wish to challenge you to think this issue through. If integrate means "to join together," disintegrate means "to break apart." Should farmers become tied up in a large number of integrated firms other than cooperatives they will lose the power of working together and of building the kind of better marketing organizations producers need. How, then, can we build more effective cooperative organizations, with volumes necessary to supply consumer needs as they want them and with costs kept to a minimum?

The contract farming integration process endangers the continuance of our cooperative organizations because the process works in this way. Special inducements are given to certain farmers to produce for a marketing firm under a contract. The better farmers or the larger farmers are thus picked off. This removes from the cooperative the strength of volume and weakens the organization in its capacity to meet the competition of the integrated firm. Cooperatives need the support of large as well as medium and small size producers. Cooperatives need all farmers -- large and small.

Of course, many farmers become integrated into other business organizations without realizing what this will mean to them in the long run. When they contract into an integrated proposition, they may be led to believe that this is going to be for their permanent benefit. The contract may appear to free them from decisions and risks, and assure them higher prices. Like flies on sticky fly paper, it's easy to get on but it's hard to become detached, or free again. If farmers contract away their freedom in any direction, they may find it difficult to recapture. They should carefully consider the long-run implications of contract deals and not be overpowered by promised short-run benefits.

In this talk, I want to make it clear that I am not critical of business firms who engage in integration. They do it because it's in their own self-interest. Farmers in their own self-interest also have a right to look at this question critically. Farmers have always been independent citizens. Are they going to be independent enough to consider this problem and what it may mean to them and to the future of agriculture and of the nation?

I am not pessimistic with regard to the future control of farming. I believe that farmers are beginning to sense that the old adage is still true: "If you don't hang together, you will hang separately."

This leads me to one final point -- the need for more cooperation among cooperatives. We have too many cooperative leaders and organizations whose cooperative horizons are limited. They believe in cooperation but on a parochial, community, regional, organizational, or commodity basis. They cannot look at the other fellow's problems because they are so absorbed with their own. We decry this attitude in others but we ignore it in ourselves. This attitude is restricting the power of our farmer cooperatives to meet the needs of farmers today. By working closely together, by pooling their efforts, our present cooperatives could achieve substantially greater benefits for their members and for agriculture. Integration does not need to be confined within one organization. It can come from a dovetailing of the work of several cooperatives. In Denmark, for example, a farmer belongs to several different cooperatives which together meet his needs. We have some good illustrations of similar dovetailing in this country, and I believe we must have more of it in the future -- although not exactly on the Danish pattern.

I am thinking more of the correlation of work by purchasing, marketing and credit cooperatives. They are largely doing specialized jobs. Can't they help each other more, without undertaking to do each other's business? Why can't purchasing cooperatives supply the farmer with feed under an arrangement with the marketing cooperative which markets his poultry or livestock? This idea seems to work well for private operators. It should work as well for cooperatives. At least, possibilities of cooperation should be explored to the utmost -- for if you can get a job done through cooperation, why do it yourself? And it may be cheaper in the long run.

I would like to sum up by quoting a few paragraphs from an article entitled "The Test of Farmer Cooperatives," that I have just written for the January 1959 News for Farmer Cooperatives.

> "The strength of a man, or a nation, or any social institution is measured by the ability to cope with serious problems. Today farmer cooperatives are being tested by drastic economic changes impinging in and on farming. Can they meet the new conditions confronting them? What will it take to do so?
>
> "There is evidence on every side that farmer cooperatives are meeting the test of the changing times. There is a vigor in cooperative thinking and action today which was not conceivable even 12 months ago. Many farm and business leaders are seeing cooperatives in a new light -- as instruments through which farmers can preserve basic values needed in our national life.

"This new attitude recognizes that farmer cooperatives must do several things to measure up to the faith of farmers in their potentialities. These things are: Grow in size and financial strength; improve the quality of management and directoral performance; catch up in research; enlist greater member and public support; and work together for larger ends.

"These things are attainable and are being done, but time does not stand still. Progress must be made faster if its benefits are to be captured."

In your 30 years you who are the C.C.A. have accomplished much to be proud of. What will you achieve in your next 30 years?

THE DIRECTOR AS A LEADER 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

Peter Drucker has said that "an institution which cannot produce its own leadership cannot survive."

I would rephrase this to read: A cooperative which cannot develop a first class board of directors cannot survive -- for a first class board of directors will produce the leadership necessary to survival.

My Webster's Unabridged Dictionary defines a leader as "one who leads; one who goes before to guide or show the way; one who precedes or directs some action, opinion or movement."

This definition implies that a leader is a person out in front -- or one who should be out in front. For our purpose I like the following definition for leadership: We have leadership when a group follows a leader from free choice.

Now my job on this panel is to examine with you the role of a director as a leader in a cooperative enterprise. What is the leadership function and responsibility of a director in a cooperative?

The very set-up of a cooperative places leadership responsibilities in the members of a board of directors. A board of directors for a cooperative has three major responsibilities: 1. It must see that an organization has a capable executive to manage the business. 2. It must see that the affairs of the organization are properly administered. 3. And it must see that the organization is properly supported.

1/ Notes for use in Management Panel on "Changing Concepts of Rural Electric Leadership," at Annual Meeting of National Rural Electric Cooperative Association, February 11, 1959, Washington, D. C.

There is a difference between the board of directors of a cooperative association responsible to its members and the board of a straight business corporation responsible to its shareholders. The director of a cooperative is representing people who are served by the business. He must be concerned with how they are served. He is their representative and he must feel a responsibility to them.

It is sometimes assumed that this tie with the membership restricts the freedom of action of a cooperative board. I don't see it that way. I believe that this direct relationship to members can be a source of great strength. If members feel that they are competently represented on the board of directors they will have confidence in the organization and will support it with their patronage.

The election of a man as a director of a cooperative association implies that he is committed to leadership. If a man doesn't show capacity to lead, do you wish to place your affairs under his direction?

Members of a cooperative expect -- or should expect -- their directors to show leadership in two ways.

First, members expect -- or should expect -- directors to manifest leadership in helping administer the enterprise. This is an internal job where leadership is expressed within the Board.

Second, members expect -- or should expect -- directors to give leadership in promoting the objectives of the organization. This is a job outside of the boardroom for 365 days a year.

Both kinds of leadership are important, and they go together. If a board member takes an active interest in the affairs of the cooperative and helps shape its policies and programs he will welcome opportunities to see that these policies and programs are understood by the members and the general public.

Should managers want directors who will rubber stamp their decisions? The answer to me is clearly no, for the board should be one of the manager's most important resources. As a matter of fact, most managers say that they don't want a rubber stamp board. To me, this can be interpreted in only one way: That they want men of independent judgment on their boards, men who make up their own minds and have ideas of their own. Such men are not Charlie McCarthies. They are leaders.

In preparing this talk I wrote to the general managers of several of our nationally known farmer marketing and purchasing cooperatives. I wanted to find out whether the managers of these great organizations rely on their boards for help in leadership. I asked them two questions: The first was: "How important are directors in gaining membership and public acceptance of cooperatives?"

Let me give you a few of their answers:

*Directors are the key people not only in directing the business affairs of the association, but also in keeping the membership fully informed and moving in the right direction; and in gaining public acceptance of the cooperative. They are generally leading farmers, and their personal stature gives standing to the cooperative.

*Directors can be one of the most important forces in developing membership and public acceptance for cooperatives. They can speak of the value of a cooperative without having a particular axe to grind. The director speaks from personal experience as a member. The fact that he has accepted important responsibilities in the direction of his organization lends weight to his attitude and pronouncements.

*A cooperative which has directors of substance, intelligence and leadership qualities is generally quite successful. Directors must be successful people and unless they are, cooperatives can be -- and generally are -- in trouble. Good directors give cooperatives the necessary appearance of substance so important to success.

*Many people look to the caliber of the directors as representatives of the association. If the board is made up of men of stature in the community it gives greater public acceptance for the cooperative in maintaining and gaining membership.

*The rank and file of our people look to our directors as leaders. In many communities unselfish and well-qualified directors exert a tremendous influence for good.

*Directors are vitally important in all levels in obtaining proper acceptance of cooperatives. We are sure that the climate in which we operate is greatly improved by the quality and public standing of our directors.

*We believe that a board member should be the best public relations man in the organization. To be that he must be thoroughly acquainted with his organization, know its aims and objectives, and never, never miss an opportunity to discuss the place of cooperatives as an American way of life.

My second question was: "Do you feel that your directors perform significant leadership functions?"

The general answer was yes, but several emphasized the fact that both board and managers have responsibilities for management.

Let me give you a few of their replies:

*Very definitely, I do. Generally speaking, in my state most of the substantial grower leadership will be found among the directors of cooperative marketing associations.

*I am proud of our directors from the standpoint of their individual stature as citizens and their sincere interest in our cooperative activities. I feel that they have a very high impact on both members and general public.

*An informed board is one of the biggest assets of a cooperative. Our directors are ambassadors of good will for our cooperative.

*Our directors see that the program is really geared to the members' needs.

*I am certain that our directors as a group have, over the years, played a very important part in maintaining respect, confidence and loyalty of members, even though there have been great variations in their individual abilities in this respect.

*Maybe in this day and age a professional management is more important than ever, and the biggest contribution that directors can make is to keep 'this guy' on the beam by initiating good questions to ask with respect to accomplishments under certain policies and to consider carefully with the manager necessary changes in policy.

*Many directors perform significant leadership functions. These are the directors with ideas and enthusiasm. They establish policies that encourage efficient management. They are as quick to praise as to question. They make it their business to know what good management is and provide the tools that make it possible. They advise and guide, but do not attempt to take on, any of the prerogatives of management.

In my brief remarks I wish to emphasize the fact that the primary responsibility of leadership in a cooperative must be formally vested in the manager -- as it must be in any well-run business. The directors must see that they have a manager who can lead -- that is one of their major responsibilities.

The manager is paid to lead -- to manage. We can't have divided responsibility on that -- the voice of the manager must be the voice of the association. But that doesn't mean that the manager should be given a monopoly in leadership, or that all leadership should reside in him. There is a need for shared leadership -- in fact, a general manager who cannot develop leadership under him, or through his board, is a weak manager.

I want to stress this idea -- that the leadership function can be shared or diffused throughout an organization. This is in line with psychological findings on the nature of the leadership function. All members of a cooperative -- and especially the directors -- can be leaders, or exert leadership influence to some extent. No one person has all the good ideas. Some are leaders in some special area. Some will defer to others on some but not all things.

In a cooperative we don't want to build up the idea that there are leaders who will look after us -- that our job is to let the leaders lead. Who, I ask you, is to select the leaders and keep them on the track? As in democratic government, we must look out for ourselves and select representatives who can give us leadership. Every citizen can help influence the character of his government, and the same is true in cooperatives. Thus, there is a place for leadership among members, although a higher order of leadership responsibility is placed in the directors and general manager.

In this talk I am concerned with the leadership given by the board member outside of the board meetings. While, admittedly, the most important part of a director's job lies in the conscientious performance of his duties as a member of the board, I also believe that he can't be a good member on a cooperative's board unless he does a good job representing the organization outside of board meetings. Neither can he do a good job outside the board meetings unless he gives his best thought and judgment to the deliberations of the board.

In an expressive article entitled, "Put the Board of Directors to Work," in a recent issue of the Harvard Business Review, E. Everett Smith took the position that boards of directors can make a tremendous contribution to the success of a business. He said: "It is ironic that we in this country who have done so much to further the art of management should have so neglected such a vital area as the job of directors."

I think this applies to many cooperatives. They are neglecting what should be one of their greatest management assets. They are not getting the values that are available from having a good and effective board.

I question whether our standards for cooperative directors are high enough. We should have the best available men on cooperative boards -- and we should expect good performance from them. It should become an accepted principle for a cooperative that "You've got to be good to play on the cooperative ball team."

What qualities should we expect in a director for a cooperative?

To my mind, the ideal director should be fair, honest, and respected as a man of character. He should be tolerant of other people's opinions, but have opinions himself. He should have a high sense of community and national responsibility; a belief in cooperative principles. Of course, he should be intelligent, well-informed, and industrious. He should speak and listen well and he should manage his own farming and business affairs well. He should have vision, for this is a time of change and old methods must give way to new. He should practice what he preaches -- and support his organization with his patronage.

As John C. Baker says in his book, Directors and Their Functions: "A good director is deeply interested in the success of the company in which he is a director; and he is unquestionably loyal to it."

If this is true for general corporations it is even more true for cooperative corporations -- for the director of a cooperative is both a member and direct user of its services.

I believe directors are an unused or undeveloped powerhouse in many cooperatives. I also believe that many directors are not sufficiently trained to assume leadership responsibilities. Frequently, they don't know how their organization really functions and what they can do to help strengthen it. Is sufficient attention being given to keeping board members informed and alert to their opportunities for leadership? Perhaps we need more schools for directors to unlock their initiative and willingness to help.

I should like to say in closing: A good board of directors is indispensable to a good cooperative, for it is through the board that leadership is generated and distributed throughout the membership.

COOPERATIVES IN AMERICAN BUSINESS 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
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For several years a question has disturbed many businessmen. "Should I welcome or oppose the development of cooperative associations?" On one hand they have been told that cooperative associations are a threat to their way of life -- even the American way of life -- a harbinger of Socialism -- a special interest group -- tax chiselers, etc. On the other hand they have been told that cooperatives strengthen the foundation of the American free enterprise system, etc. They have hardly known who to believe -- who to trust -- where to get the basic facts.

For example, some time ago a letter came to me from an official of a large American business corporation. He wanted to obtain "any material that might help in clearing up some of the wrong attitudes which have developed between independent and cooperative business." This letter set me to thinking. I said to myself: "Here is a business man who desires facts. Probably there are thousands like him." It seemed to me that to answer this letter effectively one would need to know the nature of the confusion, so I wrote back to this man and asked him for his views on the main misconceptions of businessmen with respect to cooperatives. His reply was very much to the point.

He said:

> "I fully agree that most of the misunderstanding stems from the lack of facts or using the ideas prompted by selfish interests."

He went on to say that:

> "Business executives are mostly concerned over the 'tax exemption' of cooperatives. They do not understand the nature of cooperative 'profits.' This attitude has been promoted and magnified by NTEA and others. There is some concern about the use of 'income' in purchasing cooperatives to expand and develop facilities in competition with 'private' business. The apparent support of cooperative efforts by public agencies is viewed with suspicion. The term 'socialistic' is used loosely in discussing cooperatives."

1/ Talk for Memphis Civitan Club, Memphis Tennessee, March 24, 1959.

He then said:

> "I personally feel that a sympathetic understanding of the basic principles behind and friendly endorsement of cooperation in agriculture will prove an asset to people in business. Both are a part of the free competitive enterprise system. Both are activated by a strong protective factor against government control or assimilation of private enterprise. ... It is essential that one does not antagonize the other over minor irritations and lose sight of the big issues in national policy that they have in common."

This letter was exceptional for there is no type of American business so much misunderstood and maligned as the cooperative. This is not so surprising. The cooperative association as a form of business enterprise is different. Few Colleges of Business Administration give courses on it and text books on economics pass over it lightly. Cooperation is the Cinderella of the business community. However, the farmers have taken little Cinderella in -- given her a new hat and a modern dress -- and she is to them a most attractive young lady. The farmers would like to have people know her -- and appreciate her fine qualities.

Cooperation is Business

It would be unfortunate if anyone should get the idea from the title given this talk that cooperatives are not an integral part of American business. They are as much a part of American business as the local drug store -- independent or chain -- as Sears Roebuck and Company, the Standard Oil Company of New Jersey, the International Harvester Company, or the General Motors Corporation.

What is business? Is it an economic activity or a state of mind? The World Book Encyclopaedia answers the question to my satisfaction:

> "Business is the term applied to an establishment which serves the public through manufacture or distribution of goods or services."

It seems to me that it would be hard to maintain that cooperatives are not a part of American business unless business is defined narrowly to include only those organizations which are motivated by the desire to acquire profit for those who supply capital and even here the cooperatives step in the back door -- for the members supply the capital and strive to increase their own profit.

Moreover, it should be kept in mind that cooperation is private business as contrasted with public business. As G. Harold Powell said in 1913: "A cooperative organization is one that conducts its operations for the benefit of its members."

Dr. E. G. Nourse has referred to cooperatives as "private cooperative business," by which "men in larger or smaller areas of business have found it relatively feasible to dispense with the enterpreneur in the ordinary sense and supply both the exploratory and directional function and the necessary equity capital direct from the ranks of the participants."

It is also significant that W. Bayard Taylor devotes an entire chapter of his book, Financial Policies of Business Enterprise, to "The Cooperative" as a business unit. He states that "the modern cooperative association...is neither socialistic, communistic, nor faxcistic. It is a voluntary association. ... It is economic in purpose; often loosely asserted to be a non-profit organization, it nevertheless aims to save money for its members and "a penny saved is a penny earned."

Cooperation is no new thing in American life. It is one of the oldest forms of American business enterprise and it has grown out of basically American needs and conditions. As venerated a citizen as Benjamin Franklin was one of the first to see the merit of the cooperative form of enterprise and to use it by helping to organize an insurance cooperative in 1752. It is an old American custom to do something for yourself -- if you think you can do it better than someone else who would like to have you pay him for doing it for you. The modern cooperative corporation is based on this same principle.

It is not possible in this talk to fully present the distinguishing features of the cooperative form of business. Briefly, a cooperative business differs from other private business in four main ways:

1. A cooperative business is set up by a group of individuals to obtain services for themselves at cost -- not to obtain profit from rendering services to others.

2. A cooperative business tries to render the greatest possible benefit to its members as users -- not to maximize profit for owners as distinct from users.

3. A cooperative distributes amounts remaining after payment of the cost of doing business among those who are served by it, in proportion to their individual use of its services -- not in proportion to their investment.

4. A cooperative is controlled by its patron members, each of whom ordinarily is allowed a single vote -- not by the owners of its capital stock, if any, in proportion to the number of shares they hold.

Thus the chief aim of cooperative business is to serve its members, to provide goods and services to its members at cost. It is obvious that the cooperative is as much a part of our American free enterprise system as any other individually owned business, whether it be owned by an individual, partners in a business enterprise or stockholders in a corporation.

Moreover, there is nothing basically radical about the cooperative form of enterprise which permits people to serve themselves if they prefer to do so rather than hire the services of those who desire to serve them for the chance of profit involved. As Fred Koller has pointed out:

> "Cooperative business accepts the fundamental institutions of capitalism including the right of private property, the right of contract, inheritance, and the right of private enterprise with its emphasis on the dignity and importance of the individual."

It should not be imagined that there is a basic conflict between the cooperative and other forms of business. There is competition -- yes -- but that is common between all forms of business enterprise, including those of the same type and kind.

However, there is much misunderstanding which has unfortunately been fomented by those with special axes to grind. It is believed that the interests of both cooperative and other forms of business and the citizens whom they serve would be furthered by a clarification of the facts.

It should not be overlooked that far-sighted business leaders have long recognized that the cooperative form of business is especially adapted to the needs of the farming industry. For example, one of the largest farmers' purchasing associations in the United States -- the Eastern States Farmers' Exchange -- was promoted and financed for many years by a group of New England business leaders who recognized that cooperative action by New England farmers was essential to their own prosperity. This organization for some forty years has enjoyed the good will of New England business leaders. In many other areas of the United States cooperatives are warmly supported by the members of the business community and highly respected for their contribution to business prosperity.

In fact, many men associated with investor-type businesses have farms and are themselves active members in cooperative marketing or purchasing associations. The principles of cooperative business appeal to many businessmen as being "good business" for farmers. In 1927 the Businessmen's Commission on Agriculture, set up by the National Industrial Conference Board and the Chamber of Commerce of the U. S. A., in its report on the condition of agriculture in the United States (1927) said:

"The success of farmers in meeting their own difficulties depends in the main upon their organized cooperative efforts.

"Cooperation should start with the purchase of goods needed for agricultural production. Fertilizers, seed, feed, machinery, feeder cattle, feeder lambs, and many other commodities can often be bought cooperatively better than through the private trade."

The Commission at that time even advocated "cooperative farming."

The roll call of figures prominent in public life who have advocated the use of cooperatives is impressive. It includes all of the Presidents of the United States, starting with Theodore Roosevelt. One of the most vigorous exponents of cooperative marketing that this country has known was Alexander Legge, General Manager of the International Harvester Company who as chairman of the Federal Farm Board declared: "The major policy of the Board will be the expansion and strengthening of the cooperative movement."

It is not possible here today to discuss the many contributions of cooperatives to American business life such as the emphasis that is placed on honesty, and high standards of business conduct. While it is undeniable that cooperatives contribute effectively to the nation's prosperity and to the stability of our democratic form of government, my concern is primarily one of clarifying the relationship between cooperatives and other business concerns in our free enterprise economy.

SOME MISUNDERSTANDINGS, MISCONCEPTIONS, OR PREJUDICES REGARDING FARM COOPERATIVES

It is not surprising that there are so many misunderstandings, misconceptions or prejudices among businessmen regarding cooperatives. They are different in many ways from the more common forms of business enterprise, and it's an old psychological law that the unknown is misrepresented and feared.

If cooperatives are going to clear up some of the confusion about cooperatives which is understandably bothering many businessmen they must look at the problem from the standpoint of their business competitors and search out and answer the questions upon which businessmen would like information. How can we expect a businessman to see things from the point of view of a different form of business organization without assistance.

For several years I have been trying to search out some of the erroneous opinions of businessmen regarding cooperatives as a basis for trying to answer them. For example, I recall a conversation with a banker a few years ago in which the subject of cooperatives came up. He appeared to be friendly toward cooperatives so I asked him this question: "Just what do you know about cooperatives?" He replied: "Very little, other than that they don't pay their taxes."

Let's consider this opinion and other firmly -- but erroneously -- held conceptions regarding cooperatives, with the purpose of helping those to understand who would like to be helped.

1. That farmer cooperatives don't pay taxes, or that all cooperatives are tax-exempt.

The facts simply do not support the claim. At the local level farmer purchasing and marketing cooperatives enjoy no tax advantage whatsoever over other business firms. They pay the same property tax on land, equipment, buildings, and inventory. They pay the same license and other local taxes.

The treatment of cooperatives at the State level varies between States. Here in Tennessee, for example, such cooperatives pay an annual license fee of $10.00 in lieu of all other franchise or license taxes. This results in some tax advantage, although not large in size, over other corporate businesses.

All farmer marketing and purchasing cooperatives are now required to pay Federal income tax at corporate rates on any net margins of operating receipts over expenses which they retain and treat as their own, that is, which they are not under contractual obligation to allocate currently to patrons on a patronage basis, either in cash or non-cash form. Certain of such cooperatives, by complying with strict limitations set forth in Section 521 of the Internal Revenue Code of 1954, are permitted two special deductions - "dividends" paid on capital and "non-patronage" income allocated on a patronage basis. Approximately 40% of the farmer cooperatives (including a number of the larger ones) do not qualify for this treatment. Any such farmer cooperative, whether or not it complies with Section 521, may exclude from its gross income for tax purposes any amount which it is under prior legal obligation to distribute to its patrons on a patronage basis. The Internal Revenue Service and the courts have held that the existence of such a legal obligation prior to the time the cooperative receives the funds prevents these funds from becoming income to the cooperative.

The use of this contract by cooperatives is the basic reason why they usually have less income tax to pay than an investor-type corporation. This type of contract, although not generally used by investor-type corporations, may be used by them if they desire to operate in this manner.

Of course, individual proprietorships and partnerships pay only one tax on the income they produce. Likewise, small corporations which elect the special tax treatment provided for them by the 1958 Technical Amendment Act may be taxed as partners. Obviously, farmers through their cooperatives have no special tax advantage over persons doing business in these several ways.

2. <u>That cooperatives escape payment of hundreds of millions of dollars in taxes.</u>

Few American businessmen know anything about the extent and character of cooperative enterprise in the United States. For that reason they are easily misled by propaganda which alleges that co-ops would pay from several hundred millions of dollars to a billion dollars annually into the Treasury as Federal income tax if taxed on the same basis as investor business firms. Aside from the fact that a dog isn't a cat (as one cooperative executive has pointed out) in that cooperative business is distinctly different from business in which the profits go to shareholders, there is a magnification of fact in these estimates which is fantastic.

At the present time only about 60 percent of the farmer cooperatives have qualified for exemption from Federal income taxes.

If the Government were to attempt the collection of income taxes from farmers' cooperatives on the amounts distributed as patronage refunds -- which is legally disputed on the grounds that such amounts are paid in pursuance to a prior mandatory obligation and belong to member-patrons, rather than to the cooperative as an entity -- the additional tax revenue might shrink almost to zero if the cooperatives were to price goods so as to avoid having any savings to return in patronage refunds.

It is ridiculous to assume that any form of business should be required to operate as if it were another form of business. Especially is this true with regard to a cooperative for this would be telling the millions of individual cooperative members that they could not carry on business for themselves. Cooperatives do not insist that all business operate as cooperatives. If cooperatives were to be taxed on amounts paid out in patronage refunds then investor-type businesses should be taxed on all discounts. The theory that patronage refunds should be taxed to the cooperative as a business entity is based on a misconception as to what a cooperative business is, and is an attempt to place cooperatives in a strait jacket.

In recent years, with the heavy burden of taxation, there has been a voluminous amount of literature devoted to tax reform and sources of tax revenue. I have found it of interest that no well-known economists have concerned themselves over the relatively small amounts of additional funds which theoretically might be collected from cooperatives. These men apparently recognize as a nuisance attack the charge that hundreds of millions of dollars could be collected from farmer cooperatives as taxes.

3. <u>That cooperatives, primarily because of their tax advantage, are growing rapidly at the expense of their competitors.</u>

It is admitted that farmer cooperative business has expanded appreciably in the past ten years. However, the records do not show that cooperative business in the aggregate has grown more rapidly than other business in the fields in which cooperatives are prominent. While the stronger cooperatives have improved their position so have the stronger non-cooperative businesses. It is also of interest that many of the large cooperatives -- such as Sunkist Growers -- were large organizations before there was a Federal income tax and that the greatest real growth of the purchasing associations occurred before 1940 when Federal income tax rates were relatively low.

A recent article by Chester S. Davis in the <u>Journal Sentinel</u> (Winston-Salem, North Carolina) presented a statement on the so-called tax advantage of farmer cooperatives. It is well worth quoting.

> "The advantage of the co-operative is not a tax advantage. It is, instead, an advantage born of the fact that co-operatives exist to serve their farm patrons on a cost basis. Stated in the barest terms, a farm co-operative is a corporation which, by the terms of its charter, serves as a buying and selling agent for its patrons and does that without profit.
>
> This of course, gives the co-operative a distinct competitive advantage. But it is an inherent advantage, not an advantage born of discriminatory tax laws.
>
> The puzzling thing is that co-operatives, possessing this inherent advantage, have not shown a more impressive record in their competition with the profit corporations."

4. <u>That the payment of patronage refunds is a tax-dodging device.</u>

It is true that cooperatives return savings to members in proportion to patronage with the result that little remains subject to income tax. Any business which contracts in advance to share its savings with its customers can cut down its taxable income <u>in the same way</u>. No special favor is here given the cooperatives since the same procedure is open to anyone who cares to use it. Most business firms are in business to make a profit for their shareholders. The income tax which they pay, in a sense, simply shares the profit with the government for the privilege of operating on a profit-making basis.

Business firms in general can, if they care to, minimize the amount of their income subject to tax. They can keep down income by lowering prices to customers, or by paying more to producers for products required, or they can allow discounts which cut down income before tax.

Patronage refunds in cooperative purchasing associations are somewhat like trade discounts in that they lower the price paid by consumers. When paid in pursuance of a prior contractual obligation of the cooperative association to its members they do not constitute income to the cooperative. Something which is not income cannot be taxed as income.

It might be well at this point to consider the assertion that the allocation of patronage refunds in a non-cash form is a tax-dodging device. It is contended that here is income which should be taxable to someone, yet under existing law it is not taxable to the cooperative and the patron may not be required to pay a tax on it currently.

The clear intent of the Congress, when it amended the law in 1951, was to impose a single tax on cooperative savings in the tax year in which they were created. Confusion has since developed, because of court decisions in individual cases, on the issue as to when the patron should pay the tax on these savings where they are allocated in non-cash form. Spokesmen for farmer cooperatives have recognized that this is a matter that needs clarification, and, in the hearings before the House Committee on Ways and Means in January of 1958, offered their full cooperation in working with the Committee "to develop statutory language that is legally sound and substantially fair to carry out the single tax policy objective . . ."

5. <u>That agricultural cooperatives are exempt from the anti-trust laws.</u>

I recall a conversation with a well-known labor economist a few years ago in which he vehemently insisted that everybody knows that farm cooperatives are not subject to anti-trust laws. As L. S. Hulbert has pointed out: "The fundamental and basic weakness" in this idea "is that it is not so."

It is true that the Capper-Volstead Act of 1922 expressly assured farmers that their cooperative associations and federations of such associations were not per se in violation of the anti-trust Acts. In other words, this Act gave the farmer cooperatives the legal standing enjoyed by ordinary business corporations and stopped the efforts of those who were then trying to establish the position that the formation of any cooperative association was in violation of anti-trust laws.

To reiterate, with the possible exception that a cooperative may obtain a substantial percentage of a market through voluntary membership, the Capper-Volstead Act does not permit a cooperative to engage in any activity that is in violation of anti-trust laws. The fact that cooperatives, like other business corporations, have been prosecuted under the anti-trust laws since the passage of the Capper-Volstead Act should lay this ghost, but such ghosts will persist until they are overcome by the spread of the true facts.

6. <u>That cooperatives are monopolistic and if not stopped will eventually take over all industry.</u>

Most businessmen are not critical of small cooperatives -- made up of a few individuals. They become concerned when the principle of cooperation is carried to a higher degree -- when the cooperative gathers enough strength to offer serious competition.

It is true that some cooperatives have become large business enterprises. They have done so through efficient operations, and by providing needed services to members. They have no method of controlling supply which is not available to other forms of business enterprise.

It is apropos here that although cooperatives have been in existence for 100 years in this country they have never gained a predominant position. Even in the fields in which they are strongest there are generally larger investor-type firms.

As a matter of fact, cooperatives are opposed to monopolies. Much of their stimulus has come from their victories over monopolistic combinations.

In fact, in many areas this country was really made safe for free enterprise by the efforts of cooperatives.

The threat of a Cooperative Commonwealth is only a bogey man. Should people be forced to stop eating because there is a one-to-a-thousand chance that they may eat to excess? Are the cooperatives to be feared for their potential possibilities of growth more than such truly gargantuan business corporations as the Standard Oil Company of New Jersey, United States Steel Corporation, the American Telephone and Telegraph Company, the International Harvester Company, etc., etc. A sense of proportion is needed.

7. <u>That cooperatives are non-profit organizations.</u>

It is true that cooperatives are not set up to make profits for individuals on investments of capital. Properly organized and functioning cooperatives as organizations have no profits of their own, for any excess of receipts over outgo belongs to the member-patrons.

The motivation of a cooperative business is to increase the income of the participating patrons. The members would not be interested in membership unless it was to their economic interest. Thus the individual members have a profit motive in belonging. Moreover, in a farm cooperative each member is a farmer businessman. The farmers are interested in maximizing their profits -- that leads them to cooperation -- with no spirit of general altruism.

I recently read the following statement which is typical of much of the anti-cooperative propaganda floating about: "Remove the profit incentive from the cooperative structure and it will ultimately collapse of its own weight." Of course, that is true. Does the writer believe that cooperatives are formed just for the fun of it -- and not for the benefit of those served?

8. <u>That cooperatives are opposed to all business firms operated for profit</u>.

It is true that a few cooperative leaders and members outspokenly criticize American profit-making business. Many are apt to see a monopolist behind every bush -- and overlook the tremendous competitive pressures that exist.

However, practically all cooperative leaders and members in the United States recognize that there is plenty of room and opportunity for all forms of business. All they ask is a fair field in which to demonstrate the capabilities of cooperative enterprise. These leaders feel that co-ops exert a beneficial regulatory competitive effect on profit-making enterprise which makes for the viability of our system of free enterprise, and they believe that the extent of cooperative development will depend upon the ability and willingness of non-cooperative enterprise to meet the needs of the people to their satisfaction. Neither form of business is inherently more ethical than the other. The cooperative position is that it is just a matter of whether you prefer to hire a job done -- or do it yourself.

It may be argued that in both cooperative and investor-type businesses the actual work is done by hired men. The point here is that in the cooperative the members hire the employees to do the job for themselves. The hired men are responsible to the members.

9. <u>That cooperative marketing of farm products is a proper extension of the farm business but that cooperative purchasing of goods and services interferes with the rights of American free enterprise</u>.

Businessmen frequently admit that it is all right to market cooperatively, while they hold it improper to engage in cooperative purchasing. It seems to be implied that existing private business has a vested right to the profit from the consumer's dollar. It is not generally recognized that farmers are businessmen. They, like other businessmen, try to maximize their profits. If they can do so by cooperatively purchasing goods or services they can be expected to do so. In reality, there is little functional difference between a voluntary chain cooperative composed of retail stores and a purchasing association made up of farmers who operate farm businesses.

Under our system of government, individuals can join together to perform for themselves any type of business service -- whether it be sensible or not. As Justice Brandeis has said, "Americans seeking escape from corporate domination have open to them under the Constitution another form of social and economic control -- one more in keeping with our traditions and aspirations. They may prefer the way of cooperation, which leads directly to the freedom and the equality of opportunity which the Fourteenth Amendment aims to secure."

10. That small cooperatives for marketing or purchasing are all right -- but that there is no justification for large cooperatives which compete with "Legitimate" profit-making enterprise.

Cooperatives, according to this view, should know their place and keep in it. Of course, it's hard to see how a good little organization can grow without becoming a good big business organization. If there is a function that a small organization can perform it would appear that a larger organization with more capital and management know-how could do it even better.

Cooperatives seem to be acceptable until they are strong enough to make competition effective. The opposition to cooperatives as they become big is a compliment to growing efficiency, for the weak are ignored.

The cooperative form of organization provides two kinds of competition -- competition in rendering service and competition in a way of doing business. Business people seem to fear the spread of the cooperative way of doing business more than the actual competition in rendering service.

11. That cooperatives are dependent upon government support.

It is true that the Federal and State governments have encouraged farmers to cooperate for many years. It is also true that the government has made available credit services to farm cooperatives so that cooperatives will have as equal an access to capital as their competitors. Such support is in line with our form of government which we expect to promote activities in the general welfare.

However, the U. S. Government has confined its efforts to helping farmers organize and operate their own cooperative associations. These organizations operate without subsidy of any kind and sink or swim, depending on their own efforts. It is of special interest also that the farmers themselves as law permits, are gradually buying out the public investment in the farm credit agencies -- with the hope of making these institutions ultimately their own private agencies.

It is frequently overlooked that investor-type forms of business are rendered comparable services by government educational and credit agencies.

In recent years loans and other forms of assistance have been made available to small businesses through the Small Business Administration. It is significant that upwards of 90 percent of the farmers' marketing and purchasing cooperatives are small business when measured according to criteria used by the Small Business Administration.

If cooperatives are dependent upon government support so is every other type of business. It is difficult to find any form of business which doesn't receive some benefit from the government.

12. That cooperatives represent foreign ideologies.

The cooperative form of organization has been common in the United States for more than 100 years and some of the strongest cooperative organizations in the world today are to be found in the United States. Students from foreign countries come to visit American farm cooperatives to see how they can best organize their rural life programs to meet the communist challenge. Cooperatives are an antidote to communism, for people who solve their own economic problems through cooperative action are not disposed to turn to the false and fictitious promises of communism.

In a free democratic country a group of individuals can elect whether they wish to be served by profit-making firms, or whether they wish to serve themselves. The cooperative form of enterprise is a safety-valve which permits individuals not satisfied with the services available to perform business services for themselves.

It always strikes me as amazing that businessmen should criticize cooperatives when they, themselves, make so much use of the idea in their own business operations. They can't seem to realize that a cooperative made up of a group of farmers is one made up of a group of businessmen, for the typical family farm business represents an investment equal to that of a small mercantile establishment. Cooperation implies a group going together to perform desired services. Is there any excuse for businessmen who practice cooperation for their own profit opposing the device when it is used by a group of farmer businessmen for the same purpose?

13. That cooperatives are socialistic -- or that they lead to socialism.

A professional opponent of cooperatives writes that, "We have every reason to believe cooperatives will result in some kind of statism, which will ultimately gravitate into a collectivist regime." This statement illustrates the way in which a term like collectivism or statism or socialism is used to damn something that someone dislikes.

There is nothing socialistic about cooperatives -- for the members of the cooperatives control their policies -- not the government. Socialism is a form of economic organization in which the government supplies capital and determines policies. Socialism implies ownership and control by the State while cooperation implies ownership and control by those who are served.

The charge that cooperatives lead to socialism is also fantastic, for cooperatives could not be socialist and opposed to government ownership and control at the same time. In fact, cooperatives take off the pressure of people upon the government to perform economic services. The most militant anti-socialist organizations in this country are the cooperatives who believe that people voluntarily should set up business organizations to serve themselves.

It should be realized that cooperatives increase the stake of people in business organizations. Ownership and participation in cooperatives make people less radical -- more property conscious. As they grow in size and do increasing volumes of business they thus become a stabilizing factor in economic life.

Cooperatives also protect against economic unrest. When people can together go into business for themselves there is less danger that they will turn in periods of distress toward State Socialism. They find out the facts of life with respect to business and they come to have a healthier respect for competent business performance.

It is here significant that farmers' equities in their marketing, purchasing, telephone, irrigation, insurance, electric, production credit and land bank system associations total almost $3.7 billion or an average of $1,000 for each farmer who is a member of at least one cooperative. This may seem large but the average family sized farm is a business requiring substantial assets. A typical livestock farm in the Cornbelt represents an investment of around $65,000. Assets needed in a small cotton farm may approximate $12,500 but a large scale family-operated farm may require capital of almost $195,000. Thus, farmers have a real investment stake in their own cooperative business organizations.

There is nothing socialistic about organizations which are privately owned. In fact, these organizations are anti-socialistic since they diffuse ownership so widely. No form of business puts more stress on value of private property or has more confidence in free enterprise as an economic principle.

Do we want citizens to participate in our economic life? If we do, cooperatives are indispensable. In no other form of business participation can the average person get so close to the actual business operations.

There are people who are attracted to cooperatives because they believe that the small investor connected with other forms of business oftimes loses contact with his environment. In cooperatives, members, patrons and shareholders all have an opportunity to participate in business affairs and exert business judgment.

Business is recognizing this desire by turning more and more toward cooperative methods. Market research studies attempt to find out what consumers want. Public relations programs are designed to make people feel that business is responsive to them. Efforts are made to spread ownership to an increasing number of stockholders. Stockholders' meetings are becoming more democratic.

Professor Slichter of Harvard University, and many others, have advocated the idea that business corporations should widen their basis of ownership. Slichter has said: "A way is needed by which tens of millions of persons of modest means can become owners of corporations." The cooperatives have found this way, for those who are served also own the business to a very high degree. Moreover, most cooperatives limit the amount of stock which can be purchased by one individual in order to keep ownership control spread out. This would seem to be a good thing -- and it would suggest that co-ops are conservators of capitalism by making more capitalists.

It is also of interest that many large corporations, such as Sears Roebuck and Company, have stressed the high degree of ownership by employees as a factor leading to better operating efficiency. Is not ownership by customers an equally good device to develop a partnership feeling within our economy?

14. <u>That cooperatives are "price-cutters."</u>

Since cooperatives make competition more effective they are frequently charged with being "price-cutters."

There is little to this charge for most cooperatives learned long ago that permanent service to members could not be performed on a cut-rate basis. In fact, most purchasing cooperatives have found that their members are interested in products or services of good quality at the lowest possible price, not in erratic low prices at the expense of either quality or service. It has long been the practice of purchasing cooperatives to sell at competitive prices and make savings available in the form of patronage refunds. Thus when competitive prices and the resulting net margins are abnormally high this results in large savings to members in the form of patronage refunds. Of course, large patronage refunds paid out by cooperatives will cause competition to lower prices. Marketing cooperatives, in serving farmers, naturally get all they can for their members' products. It would be suicidal for them to cut prices at the expense of their own members.

15. That cooperatives are poorly managed and inefficient.

Although direct competitors know differently, it is frequently alleged that cooperatives do not compare in business efficiency with their corporate competitors. The record should be enough to disprove this misunderstanding. While not all cooperatives are managed to perfection, many show costs of doing business lower than competitors and have enviable balance sheets. In fact, the financial standing of cooperatives is, on the whole, excellent, and failure infrequent. This record suggests that cooperatives are one of the most efficient and stable parts of our American enterprise system. Their growth has been steady and modest. They mind their own business -- which is only the business of the millions of farmers who are serving themselves.

It is amazing to see cooperatives pictured as questionable business ventures -- with shaky financial foundations, incompetent management, etc., -- while at the same time they are charged with becoming colossi, which will eventually supplant all other forms of business.

Without doubt, much of the current criticism of cooperatives in business circles is based on willful misinterpretations and lack of knowledge. This is not surprising since we cannot expect others to understand without a supply of real information.

I believe that the burden of presenting the cooperative story and in nailing down falsehoods which are floating about must be assumed by the cooperatives themselves, and I have sufficient faith in the broadmindedness of American businessmen to believe that many will change their views when they find that they have been in error.

I believe that cooperatives should use every opportunity to explain their methods and operations to businessmen as well as to the general public. They should issue informative annual reports and try to see that they are read in business circles. The cooperatives have grown by doing business out in the open. They should not draw in but expand their efforts to explain what they are doing to their members and the general public.

There will always be opposition to cooperatives or to any form of enterprise which is alive and flourishing. What is called for is an aggressive program of educational enlightenment together with the building up of strong cooperative organizations which are themselves proof of the merit of the idea.

I wish to close on an optimistic note. The other day a friend who is well known in business circles said to me, "The social responsibility of American business is growing by leaps and bounds." I believe that this is true, that cooperatives can thrive in this kind of business environment, and that the future of cooperatives will continue to depend largely on the good sense of American cooperators.

PROGRAM OF THE FARMER COOPERATIVE SERVICE*

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I appreciate this opportunity to meet with you. We enjoy excellent working relations with Extension Service workers in Washington and with many of you in your respective states.

The Farmer Cooperative Service is dedicated to the idea that farmer cooperation is a good thing for farmers and a good thing for the country. Our mission--which was given us by Congress in the Cooperative Marketing Act of 1926--is to help farmers build stronger business organizations to help themselves meet their farming problems.

The Cooperative Marketing Act of 1926 was a significant piece of legislation. It accepted cooperatives as an essential form of business organization for agriculture and set forth a set of guiding rules on how the Government could properly render assistance to farmers in building efficient cooperatives. Let me read a paragraph from this Act to show its spirit and content:

> "The Division /which by the reorganization of the Department of Agriculture in 1953 became the Farmer Cooperative Service/ shall render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities."

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*Talk for Extension Conference on Marketing Programs for Extension Administrators, Chicago, Illinois, April 6, 1959

You can see from this broad authorization that work was not to be restricted to cooperative marketing--but was to cover "cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities." Moreover, the Act recognized that federations and subsidiaries were essential to the full effectiveness of cooperative enterprise.

What kind of service was to be rendered "to associations of producers of agricultural products?" The Act carefully spelled out the answer. The agency set up to carry out the provisions of the Act was authorized: To conduct studies of cooperatives; to confer and advise with them; to promote the knowledge of cooperative principles and practices and to disseminate information useful in the development and practice of cooperation. Thus our mission, as given us by Congress, can be summed up in the three words: research, service, education.

For 33 years the Farmer Cooperative Service and its earlier forms of organization have scrupulously endeavored to carry out the intent of the Cooperative Marketing Act in accordance with the authorizations stated in it.

The establishment of our work as the Farmer Cooperative Service by the reorganization of the Department of Agriculture in December 1953 has better correlated our program with other programs in the Department and provided many administrative advantages.

It is not enough to be given a mission to perform. Those charged with the responsibility of performing the work must believe in its importance. It is my conviction that the staff of the Farmer Cooperative Service have a full appreciation of the importance of the work assigned to it.

Our experience in working with cooperatives over the years has demonstrated to us the need and significance of our job. We believe in agricultural cooperation as a way by which farmers can themselves meet many of their problems. Our studies have shown us how marketing cooperatives have developed market outlets, improved returns for crops produced, stabilized markets and made savings for farmer members. They have shown us how cooperatives have raised quality standards and improved standards of competition. In working with the cooperatives we have seen what cooperatives can mean in giving farmers a sense of independence. We know that they give small farmers as well as big farmers the advantages of large-scale operation. In fact, we know from first-hand experience that cooperatives are a healthy part of our free enterprise system.

However, we are not blind. We know that many cooperatives are not operating as efficiently as they should, that many are in a rut, that many are weakly financed, inadequately organized or poorly managed. While we know what can be done cooperatively, we know that many cooperatives fall far short of perfection, and fail to come anywhere near reaching their potential capacity to be of service to farmers.

We see it as our job to help bring up the standards of cooperative performance, to help cooperatives with their mission in serving American farmers.

So far, I have tried to give you an idea of who we are and what we are expected to do, and how we feel about doing it. Now, I'll try to tell you how we attempt to carry out this mission assigned to us.

The foundation of our work is research. We have to find the answers to problems before we can help farmers and their cooperatives meet them.

Our research work is designed to determine how farmer cooperatives can be most efficiently organized and operated so as to best serve the needs of farmers. Moreover, only efficient cooperatives can best serve the needs of the general public.

There are nearly 10,000 marketing and purchasing associations, and many more which render business services for some three million farmers. The problems which they have that can be helped by research are many, varied, and often complex. Obviously, the Farmer Cooperative Service cannot meet all of their research needs. All that we can do is be of as much assistance as we can. Whenever possible we endeavor to make studies which will serve the needs of groups of associations so that the benefits will be widely dispersed. Frequently, by studying the problems of one association we obtain information that will greatly help another, or a large number of associations, with like problems.

We like to think of the Farmer Cooperative Service as a coordinating center for research done in the field of agricultural cooperation. For example, many of our studies are made in close cooperation with the land-grant colleges. We believe such cooperation has many advantages. It brings to bear on the solution of a problem the resources of both agencies. The state college has the advantage of living with the problem while the Farmer Cooperative Service can bring an outside viewpoint or information on how the problem has been solved in other states that can be highly useful.

The extent of our cooperation with state colleges and other agencies in the conduct of research studies relating to cooperatives is little understood. During the past year we were called on for advice or assistance in connection with research projects relating to cooperatives by workers in practically every state of the Union. In many cases we also advise or cooperate with cooperatives on research work which they are doing. In this connection we believe that many cooperatives should do more research work on their own problems and we encourage such research at every opportunity. Along this line we have issued a circular, "Business Research of Regional Farm Supply Cooperatives" that should be helpful to regional marketing associations as well.

The research problems of cooperatives needing attention are so many and varied that we consider the stimulation of research by others one of our important responsibilities.

One of the problems in carrying on a research program is to center attention on problems that are most in need of solution. How do we find these problems?

Frequently the problem is so insistent that it cannot be overlooked. Right now, with the price-cost squeeze there is an understandable pressure for cost and efficiency studies, and studies to improve merchandising effectiveness. With a change in the economic cycle--or mobilization for war--other problems quickly call for urgent attention.

There are other problems that are not so apparent but just as significant. For example, what are the trends affecting a given type of cooperative? How can a cooperative best adjust to changing economic and social needs? What is the best basis for organization or operation for a given type of association under various conditions? What is the best way for financing cooperatives? Or is there a best way? What are the advantages or disadvantages of revolving fund methods of financing? Should patronage refunds be paid in cash? All of these problems are important and the Farmer Cooperative Service cannot ignore them.

One of our problems is to arrange our program so that we can meet the insistent demands of cooperatives for research to help on a problem today, or no later than tomorrow, and also help find the answers to these basic problems.

In order to help meet this need for research on fundamental cooperative problems we have co-sponsored with the American Institute of Cooperation a few years ago a study of research needs in agricultural cooperation. Our idea was that if we could set out the problems needing solution this would encourage research workers in the land-grant colleges, cooperatives, and Government to make studies to find the the answers for them. In this study we brought together in conferences leading agricultural economists and rural sociologists of the land-grant colleges so that the resulting report represented the best thinking that could be obtained. This report strikingly indicates how much we still don't know about cooperatives, and how much we can learn through the intelligent application of research techniques. However, I can see evidence already that this report is having a good effect in stimulating needed research in many quarters.

I would also like to tell you briefly of the series of regional and national research conferences in agricultural cooperation that we have sponsored with the American Institute of Cooperation. The main object of these meetings, held in cooperation with the land-grant colleges, has been building up better research teamwork between the land-grant colleges and the Farmer Cooperative Service.

I have mentioned these conferences because they indicate how we are striving to amplify our research efforts.

One of our most important functions is to help keep cooperatives on the track. We frequently can help them in not making mistakes, or we can help them find out how to do things. Many of our studies are like time bombs. They may not be immediately used by the association or associations studied, but years later we see the findings being gradually put into effect. In one case our studies over a long period of years eventually led to the development of a strong national cooperative organization. I can think of several other cases of this sort.

It is our experience that cooperation grows best from good examples. Every time we help strengthen a cooperative we improve the standard of cooperative performance. When farmers come to know how a good cooperative operates they will not be long satisfied with poor cooperative performance.

In our work we like to think of ourselves as working to help farmers through their cooperatives. We are not interested in the glorification of management--but we are deeply interested in the job that management does. Our studies are made to help management do a competent job for farmers.

We are carrying on a number of research projects of interest to all cooperatives, but I will content myself with one example. In recent years many cooperatives have desired a general study on methods of cooperative financing. At the request of the National Council of Farmer Cooperatives we have been making a comprehensive analysis of the financial structures of cooperatives. The results from this work provide helpful information to the cooperatives and many others on how cooperatives are financed, and the best arrangements for financing them.

I should like to point out here that in addition to our regular research work with cooperatives, carried on under the provisions of the Cooperative Marketing Act of 1926, we also carry on agricultural marketing studies of industry-wide significance with funds made available through the Agricultural Marketing Act. These studies are not exclusively made to help farmers with their cooperative problems for they benefit all other farmers. An example is our recent circular on bargaining associations.

Do we need research today as much as in the past--and what kinds? This is a good question. My answer is "more and better." The problems of cooperatives are becoming constantly more complex and they call for specialized research assistance. There are many cooperatives still in the horse and buggy stage--they need modernizing. There are new groups coming along--they need guidance. There are old cooperatives that have lost their way--they need to be reinvigorated.

How one answers the question of whether more research is needed or not will depend on what one is satisfied with. I am of the view that if you look into the future and say--"Let things slide"--competition will soon tear down cooperative progress to date. Today competition is so keen that cooperatives cannot stand still without falling behind.

It seems to be indisputable that if farmers are going to continue to have much say in their business affairs they are going to need stronger cooperatives to represent them.

One object of our research studies is to put us in position to render effective advisory service. Our research would be of little value unless its findings were applied.

The Farmer Cooperative Service has never made research studies without endeavoring to see that the results were utilized. Moreover, the selection of problems for study is determined by the estimated usefulness of the work to be done.

Some of you may not know that the Farmer Cooperative Service does not maintain a separate staff of service workers who attempt to apply the results of research. Each research worker on our staff is also a service man. It is part of his responsibility to get the results of his research work into effective use.

For practical purposes, we find it desirable to distinguish between research and service work, although the whole purpose of the Farmer Cooperative Service can be summed up in the words, "Service to farmers on their cooperative problems."

When we refer to our service or advisory work we mean usually the work we do to help a cooperative or a group of cooperatives on a specific problem. To help solve the problem no new research may be necessary, for we may have made studies that provide all the necessary information. But generally it takes some specific study to meet the most simple request for help.

To understand our service work you might look upon us as a co-op service station--comparable to a service station where you can get your car oiled and gassed or otherwise fixed up. Our ability to help on problems quickly depends to a great extent on the fund of experience and data which we have built up in assisting other cooperatives on similar problems. To a great extent, the bulletins, circulars and reports of the Service make unnecessary direct service work. In frequent cases we have the answers that will help a group of producers meet a given problem if the problem is brought to our attention.

To the extent possible, we work through and with the state and local agencies in meeting requests for assistance. We are not set up to serve all the cooperatives who may need help from time to time. By working with the state colleges and similar agencies we are able to spread our attention over a wide area and backstop them in meeting local problems. In many cases we refer requests for service work back to the state colleges since they are in better position to render the aid desired. In all cases we endeavor to keep the state agencies informed of work being done in their states, as this enables us to maximize our respective abilities to help on a common problem.

Many times farmers call on their county agent or state extension marketing economist for help on a problem where specialized knowledge is needed. Many calls for service work come from state workers with such problems. For example, a few years ago, when Tom Hall was Chief of our Grain Branch, a group of new barley growers in California needed information in setting up a cooperative elevator for their product and little experience was available in California on this particular problem. They discussed this matter with their county agent who called in the state marketing extension economist. He, in turn, requested assistance from the Farmer Cooperative Service. Tom sent out suggestions by mail, and subsequently made a brief survey of the situation with representatives of the college and the county agent, and a satisfactory plan was worked out for designing, building, and locating the required facility.

We look upon our educational work as the end product of our research and service activities. Without them we could not be effective in doing an educational job.

The Cooperative Marketing Act wisely recognized the need for education as well as for service and research. Let me emphasize this by quoting our authority as given in the Act: "To promote the knowledge of cooperative principles and practices and to cooperate, in presenting such knowledge, with educational and marketing agencies, cooperative associations, and others." Furthermore, we are authorized by the Act "to make such special studies, in the United States and foreign countries, and to acquire and disseminate such information and findings as may be useful in the development and practice of cooperation."

It is sometimes hard to draw a line between service and education. Our service work is carried on to help a cooperative or group of cooperatives meet an immediate problem. Our educational work is done to help cooperatives meet problems as they arise. The better job done in education the less the necessity for assistance on specific problems. In our educational program we consider our function to be primarily that of providing information that can be used by others in carrying on teaching activities. We try to provide source materials needed by colleges, county agents, vocational teachers, educational departments of farm organizations, and cooperatives, and many others.

A recent study made by the land-grant college consultant of the American Institute of Cooperation found our publications being widely used for teaching purposes in practically every state of the Union. The bulletins and circulars of the Service reach a wide readership. Many of these publications are requested by non-cooperative business establishments, as they provide information helpful to these agencies. Our principal medium for cooperative education is our News for Farmer Cooperatives which goes to cooperative managers, college workers, county agents, vocational teachers, etc. In this publication we endeavor to disseminate the results of current research. Many county agents and cooperatives keep a current file of this publication and draw on it for information as needed.

An important part of the educational work of the Farmer Cooperative Service consists in formal training programs for cooperative groups. In recent years we have cooperated in workshops, clinics and formal educational programs in many states with the Extension Service, American Institute of Cooperation, banks for cooperatives, and departments of vocational agriculture to instruct county agents, vocational teachers, and cooperative leaders. Another educational activity has been the preparation of training aids for educational use. These are simply text book materials adapted to meet the needs of specific groups.

One of the functions of the Farmer Cooperative Service is to serve as a national clearing house on cooperative problems. A cooperative official or state college worker or a representative of some other government agency may need help. They turn naturally to the Farmer Cooperative Service.

The Farmer Cooperative Service is the only public agency in the United States studying agricultural cooperation in all its phases. It is the main source of public information on agricultural cooperation. Over a long period of years it has maintained the national statistics on farmer cooperation which are used by research workers, students, legislative bodies and all others interested in the subject.

Our work under the technical assistance programs in helping foreign visitors understand the methods of our farmer cooperatives is also very important. Last year we helped over 500 foreign visitors by consultations or by assistance on itineraries.

I hope that my remarks help you understand the work of the Farmer Cooperative Service. We have a number of publications that help explain our work and if any of you desire additional information on our current program please let us know.

To me it is indisputable that farmer cooperatives are a good form of business enterprise. I stressed this a few years ago in an article in the Harvard Business Review (January-February 1957) which carried the title, "Are Cooperatives Good Business?."

In that article I called attention to the fact that cooperatives are an established and integral part of our business system. I maintained that cooperatives are rooted in the basic right of people to join and work together in their own self-interest. I stressed the fact that cooperatives are a distinctive form of private enterprise, well designed to meet the problems of independent farmers who, as small businessmen, must set up cooperatives if they are to survive in a world of bigness.

In a Fortune Magazine article last February, called "The Contagion of Freedom," Arthur Larson, now Professor at Duke University, states that our free enterprise system provides "built-in" stimulants to (1) high production, (2) efficiency, (3) innovation, (4) quality, (5) good consumer service, and (6) efficient distribution of materials and products. Cooperatives provide all of these built-in stimulants. One cannot draw a line and say that cooperatives do not measure up on any of these attributes of a free enterprise.

The assumption of the subject given me for this talk is that farmer cooperatives do have a future in our free enterprise system. This is a most reasonable assumption. In many respects cooperatives are among the healthiest parts of our present free enterprise system. Recent trends show that farmer cooperatives not only have been holding their own but have been gaining ground in their efforts to provide more and better services for members.

In our American free enterprise system a business must serve to survive. People will not long support an enterprise that is not performing a useful function.

Before I discuss with you the future role of cooperatives let me take stock of farmer cooperatives today. Many people do not fully realize how important these agencies now are in American agriculture. Just to take a few examples -- how many people, for instance, know:

1. That over 3 million farmers, or more than three out of five farmers are members of cooperative marketing or purchasing associations?

2. That the total business done by farmer marketing and purchasing cooperatives exceeds 10 billion dollars a year?

3. That farmers in 1958 had an ownership investment of 3.7 billion dollars in various forms of farmer cooperatives: marketing, farm supply, rural electric, mutual telephone, irrigation, insurance, production credit, and land banks? This is an average investment in cooperatives of $800 for every farm in the United States, regardless of whether the operator is a cooperative member or not. There is, of course, great variation in the amount of investment per farm, depending on the operator's use of cooperatives and the size of his farm.

4. That over half of our farms obtain their electricity through cooperative organizations?

5. That most farmers obtain their fire insurance protection from mutual insurance companies?

6. That production credit associations, credit unions, banks for cooperatives, and other cooperative agencies provide farmers with much of the capital they need to carry on their farming operations?

I have been working with farmer cooperatives in all parts of the nation for more than thirty years. During this period I have watched these organizations grow continuously in significance. Why have they grown? I think the answer can be summed up in one word -- performance. Cooperatives have grown in significance because they have well served farmers and their communities. They have merited this support because they have helped farmers achieve goals and objectives through group action which they could not realize as individuals.

Farmer cooperatives have grown in the United States for three main reasons:

Of most importance they have helped farmers save money. A study which we made in the Farmer Cooperative Service a few years ago shows that the amount of farmers' savings from marketing and purchasing cooperatives, as shown by their patronage refunds, amounts to about $250 million annually.

A second reason why farmers have supported these organizations is that they provide them with the types and qualities of supplies and services that they desire. Through cooperatives, farmers have been able to obtain "open formula" feeds and fertilizers, made in accordance with their own specifications. Farmers are concerned with supplies that yield results in use and they want services that are adapted to their needs. Through cooperative organizations they can stipulate the kind of quality and service to be furnished by their organizations.

Thirdly, farmers have supported cooperatives because these organizations provide them with services that they could not otherwise obtain. You know the story of the Rural Electrification Cooperatives -- that if it had not been for them many farmers would not now be receiving electric service. The same thing is true for many other kinds of cooperatives. If there were not a cooperative, many farmers would be without a decent market or without adequate sources of supplies and services.

Many cooperatives have been formed because farmers as individuals could not effectively deal with large business organizations. Only through cooperatives can farmers develop the bargaining power necessary to get for themselves the same advantages that are obtained by other elements of our business community.

I could go on, but I think I have made my point. That farmers have supported cooperatives because it's in their self-interest to do so.

It is also important to realize that cooperatives benefit all farmers, whether or not they are members of the cooperative served. The presence of a cooperative in a community keeps other forms of business enterprise on their toes. To stay in business other firms must meet the standards of cost, quality and service set by the cooperatives. Thus, farmers who are not members of cooperatives gain substantially from the existence of cooperatives. The competition provided by the cooperatives forces other firms to give all farmers some of the advantages that farmers receive through membership in their cooperatives.

Admitting that cooperatives have performed valuable services in the past and that they are continuing to do so in the present, the question still remains -- what about their role in the future? Are the trends hopeful for the continued growth of cooperatives? Or have cooperatives done their job and raised the standards of agricultural business to the point where they are no longer needed? Are farmers now ready to let other firms perform the functions that they have looked to their cooperatives for?

I see no evidence that the job of farmer cooperatives is done or that farmers are weakening in their support of their cooperatives. In fact, it seems to me that conditions indicate an even more important need and place for farmer cooperatives in the future than in the past.

Take, for example, the trend toward bigness. On every side we see big business organizations brought about by mergers and combinations. How shall the farmer deal with these mass buyers and mass sellers? Can he do it by himself? Or must he set up cooperative organizations strong enough to deal with them in his behalf? I think the answer is clear. He must either accept whatever service he can get from other business establishments, or he must join with fellow farmers in supporting a cooperative organization.

Can farmer cooperatives adapt to the revolutionary changes taking place in farming? As farms grow in size and become better managed business units will farmers turn away from farmer cooperatives? I do not think so -- although we can assume that more will be expected of cooperatives than in the past. They will need to increasingly demonstrate that they are operating with maximum efficiency in behalf of their farmer members, but I see no reason why they cannot meet this challenge.

Much is being said today about vertical integration of agriculture. Can cooperatives meet this challenge? On this I would say that cooperatives are themselves integrated organizations. They tie the farm enterprise into marketing, purchasing and other business operations. They can provide farmers with all of the advantages of integration just as well as any other type of business, and they can do more, for in a cooperative the integration is carried on for the benefit of the farmer. Any savings made possible through integration belong to the farmer as integrator.

Today we are watching a great upheaval in agriculture. Food and fiber production, processing and distribution are becoming one continuous

process. The sharp lines of demarcation between farm and industry are breaking down. Under these circumstances farmers need cooperatives to see that the advantages of integration flow to farmers instead of away from them.

There are various other developments in our society that seem to be conducive to the expansion of cooperation. Today we hear much of togetherness -- how people like to work together, think together, play together. It seems to me that cooperatives provide an agency through which this desire for togetherness can be realized. If togetherness is a principle worth encouragement, cooperatives are certainly in line with the times.

Business corporations, labor unions and other forms of organization all stress the need of getting people to work together. Cooperatives also are made up of people. They, likewise, are seeking to help people work together. No other type of free enterprise has more to offer the individual in the form of personal recognition. They provide a means by which an individual can participate in making decisions that affect his economic status.

These things indicate to me that the future role of cooperatives in our free enterprise system will depend to a large extent upon the ability and capacity of cooperative leaders to capitalize on the undeveloped potentials of cooperatives for meeting farmers' needs. The future role of farmer cooperatives in our free enterprise economic system will call for vision, courage, and action by cooperative members and their leaders in working toward realization of these potentials. The future role of farmer cooperatives will be what farmers make it.

Each of us makes his own future. That is also true for a cooperative. This is one of the values and virtues of the society in which we live. To thrive in the future cooperatives must gain adherents by the value of their services.

I see a growing recognition of the need on the part of the cooperatives for self-improvement. This gives me confidence that they will meet the tests of the future just as well as any other form of business. In fact, I believe that cooperatives are going to play a more dominant role in our agricultural life in the future. It seems reasonable that more and more people are going to accept the idea that cooperative marketing, farm supply and service associations are the logical joint-action methods for organizing agriculture for production and distribution. It seems reasonable that we will see more general recognition of the fact that farmers can best obtain essential services through their own cooperative organizations. It seems reasonable that we will turn more to these self-help agencies and less to government if we are concerned with strengthening the economic position of farmers in our economy.

Here it is of interest that Carroll Streeter, Editor of the Farm Journal, (editorial in March 1959 issue) is of the opinion that the biggest farm

question of the hour "is whether farmers can find it in themselves to strike out in organized ways to solve their own problems, without becoming dependent on government or anybody else." He is not alone in seeing a great future for strong, well-organized and well-managed cooperatives.

Thus, I believe that one of the primary roles of cooperatives in the future -- as in the past -- will be to help us keep our free enterprise system competitive. Cooperatives can be a response to bigness by bigness comprised of an agglomeration of small business enterprises. This countervailing power can help keep down the spread of monopoly and administered pricing. Cooperatives by virtue of their organic form must spread their benefits to their members. In doing so, they compel competing enterprises to share their profits with their customers and this helps keep our economy fluid.

There are eight things that cooperatives must do if they are going to meet their full possibilities in the years ahead and set the pace in serving the needs of farmers:

1. Cooperatives must become larger and stronger. Small cooperatives, no matter how efficient, cannot meet the needs of our present large-scale agricultural and industrial economy.

2. Cooperatives must improve the quality of their management. To put this in a different way, cooperatives with weak management cannot set the pace.

3. Cooperatives must improve the quality and performance of their boards of directors. The job of management cannot be done by paid employees alone. It calls for the conscientious attention of a competent board of directors.

4. Cooperatives must develop greater financial strength. To do the things needed if they are going to set the pace, cooperatives must have funds for research, for facilities, for promotion, and for many other things, including the taking of risks, that go with modern business efficiency.

5. Cooperatives must catch up in the use of research. A cooperative can't be a pacesetter and follow the research of other organizations. A pacesetter will develop and apply new ideas.

6. Cooperatives must strengthen their membership work. Here lies a tremendous opportunity that cooperatives have over other forms of business. Have cooperatives made the most of it? Have directors and managers looked upon members as customers or have they looked upon them as partners in a joint enterprise? There is quite a difference.

7. Cooperatives must improve their public relations. Everybody knows this but not enough ingenuity has been applied in doing something about it. I would like to see a little real pacemaking in the field of public relations.

8. Cooperative must learn how to help each other more. There are many ways that cooperatives can help each other and in so doing help themselves. Cooperatives can be pacesetters in working together just as well as in working separately. If it takes cooperation to compete with other business concerns more effectively then cooperation becomes a competitive principle of maximum importance.

Can cooperatives meet these musts? Of course they can if they set their hearts and minds to it, and when I say that cooperatives have hearts and minds I mean that cooperatives are made up of individuals who have hearts and minds. That is to say, I look upon cooperatives as flesh and blood organizations comprised of members, directors and employees. They are the cooperatives -- not the managers alone -- and they must all set their hearts and minds to this job of meeting these musts. 1/

While I see an increasingly important role for farmer cooperatives in our free enterprise economic system, I don't wish to over-emphasize their importance. As I said in the Harvard Business Review article, "The cooperative form of enterprise both complements and supplements the services performed by other forms of private business, thus giving our system even greater flexibility and strength."

In a democracy we must always set our goals high and try to live up to them. Farmer cooperatives -- of all types -- must likewise set their goals high and then earn, by performance, public respect for them.

1/ For a more complete discussion of these eight "musts" see my mimeographed talks "The Road Ahead for Farmer Cooperatives" (August 1957) and "Cooperatives Can Set the Pace." (May 1958).

RESEARCH NEEDS TO BUILD AN EFFECTIVE SYSTEM FOR CONTROL FOR LARGE AND COMPLEX COOPERATIVES *

By Joseph G. Knapp, Administrator
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How can we carry on research to help farmers retain control of their organizations as cooperatives become large and complex business enterprises covering wide areas?

The more I go into this question the more it strikes me as of No. 1 importance. How can farmers control their own cooperative associations when they become huge business entities? We have the same problem in our political life. How do we as citizens control our national government, with a budget of some 80 billion dollars a year?

Without question, the problem of control increases in importance as organizations grow in size, whether they are business corporations, labor unions, churches, colleges, or governments. When an organization is small the problem of control is not so difficult. Then members, patrons, or investors generally know the manager and the board of directors and they can see how the organization is run, and they can help make it run. As an organization grows in size, steps must be devised to see that it remains responsive to the aims for which it was formed. Informal methods of control must give way to more objective methods.

We might ask ourselves this question: How much control should members be expected to have over large cooperatives? I think the answer is self-evident. They must have enough control to see that the organization continues to operate in their interest.

For too long we have not faced up to this question. Today the problems of contract farming and economic integration and the necessity of building large cooperatives to cope with the bigness of other firms serving farmers compels us to give control by members the attention it deserves.

How can a cooperative engage in contract farming with certain members without breaking down the principle of equity involved in treatment of all members alike or on the same basis?

Can we expect some cooperative members to subsidize other members? If a cooperative contracts with certain of its members, how will this benefit the organization as a whole and its individual members? As I see it, any cooperative plan for engaging in contract farming should meet the test of serving the interests of all farmer-members in the organization. Is this asking too much?

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* Talk for Cooperative Research Workshop, American Institute of Cooperation, University of Illinois, August 8, 1959.

I would like to raise another question: Can cooperatives meet the needs of small or average farmers while programs are made attractive to big farmers? If a cooperative provides extra financing inducements to big operators--say, in poultry farming--who will select those who are to so benefit, and on what basis? Can any manager or board of directors equitably distribute special favors? Can services be provided at cost to large and small members alike? The question must be continuously asked: Is the cooperative business to be run for the business as an entity apart from the members or is it to be run for the members--that is, for all who support the organization?

This kind of problem is giving concern to many cooperatives today. Can cooperative efficiency be harmonized with business efficiency? I believe it is possible--to the advantage of both--but not without good planning and good organization.

Now, let's go back to our main subject. How do members exert control over their cooperatives? There are two principal ways. The first is through their patronage. If they don't use their cooperative they destroy it. If they give it their business, they help it build volume and thus lower costs and improve services. The second way is through their vote and participation in decision-making. Never forget that the directors are elected by the members--in one way or another. That is why cooperatives need well-informed and interested members who will see that they have competent representation on their boards of directors.

In the final analysis, all power resides in the membership. Managers and directors, if they are wise, will not ignore this fact. The most able cooperative managers and directors strive incessantly to meet the needs of the members who hold this ultimate power.

In this session we are concerned with probing for the kind and amount of research that is needed right now--not next year--to retain and strengthen the control by agricultural producers of these far-flung extensions of their farming businesses into the procurement and manufacture of their farm production supplies, the processing and marketing of their agricultural products, and in the rendering of other important services.

Problems in Member Control

First, let's ask ourselves what we know and don't know, and also what we need to know about control by farmers of their cooperative business organizations. Just how well do members of cooperatives understand their own organizations? Are the cooperatives we now have really an extension of the business of farming? Do farmers recognize them as such? How many of the member patrons of cooperatives will stand up to be counted as members of their own enterprises? How many farmers look upon their cooperatives as their own buying and selling agencies?

A few excellent studies have been made of the concepts, understandings and attitudes of farmers toward their cooperatives. Their somewhat negative findings should impel us to widen our knowledge on these hard facts of life. How can we possibly know how to improve controls unless we are aware of how farmers think and feel toward their cooperatives?

How do larger scale farmers look upon cooperatives? Do they understand the economics of cooperation? Certainly the cooperative of tomorrow must have the support of and be more controlled by these large producers who are steadily growing in relative importance. Is not this larger scale farmer apt to be more interested in economic returns and somewhat less interested in fraternal and social benefits?

The time has come for members of cooperatives and their leaders to know more clearly the objectives and limitations of their farm business organizations. To the extent that these objectives and limitations are not fully understood, research on the mechanics of control is urgently needed to help correct the situation.

To design an effective system of control for large cooperatives we need to know more about decision-making throughout the entire organization. At the local level how do the members, the directors, and the manager make decisions? At the next level how are decisions made, etc.? All of these decisions interact with each other. Farmer Cooperative Service is now working with Pennsylvania State University in an attempt to provide insight on this problem. An objective of this study is to help farmer members keep control of their cooperative organizations through improved channels of communication.

Do we know enough about the attitude of members toward the problem of control? Perhaps we should try to find out how much control they want and how they want to exert it--what they consider a reasonable degree of control. When we find out from an attitude study that the members refer to an organization as <u>their</u> organization rather than <u>our</u> organization it should be clear to us that they do not feel that they have much control over it. I believe it possible to work out practical statistical measures on the degree to which farmers feel that they have essential control.

Some people assume that control could be improved if we would do away with the one-man one-vote principle. There is much to be said for the one-man one-vote principle in that it treats all individuals with equal significance, regardless of the size of their farming operations or the patronage that they give the association. The weakness of this principle is that those who make the most use of the association frequently feel that they should have a greater voice in the way it operates. At least, many good cooperators believe that they should be in position to protect it from those who have little direct financial or other interest in its operations. I am inclined to think that a consideration of the values of the one-man one-vote principle and the degree to which this principle now meets modern needs should be subjected to careful scrutiny. There would at least be this advantage from such study. Many would be forced to think through the implications of the one-man one-vote principle and alternative methods of control.

A healthy discussion of this question might help focus attention on the problem of how to best achieve members' control of cooperatives. It may be that the one-man one-vote principle is adapted to local cooperatives and not so well adapted to regional or federated cooperatives, and this principle may be better adapted to the purchasing type of cooperative than to the marketing type of cooperative. We need more information on the advantages derived and problems involved where voting according to patronage has been adopted. Has this method of voting generally resulted in strengthening organization? Have better boards of directors been selected? Has it affected cooperative character?

We must be careful not to look at this question too narrowly. The one-man one-vote principle has well served cooperative development for more than a hundred years. We should not jump overboard and think that a change to a patronage basis of voting will immediately bring better direction and better management. We must ask ourselves "Why?" and "How?".

We should also look at methods of financing more closely to see how they are related to the problems of control. Member-ownership is very important in giving members a financial interest in their organizations. Do farmers who have invested in the stock of an association demand more control than those who invest in the organization painlessly through their patronage?

Do we know how to keep our members informed so that they will be intelligently interested in the organization and concerned with giving it adequate control? It is generally assumed that the members control a cooperative through the board of directors, but who controls the board of directors? How are they elected? How are the members assured that the most competent and responsible directors are serving them? How do directors function in relation to members? Do they feel a sense of accountability to the members? I believe this is an area requiring a great deal more study than has been given it. How can members get better representation on boards of directors?

If members are going to adequately control an organization they must understand it. It must be set up so logically that its functions are clear. This is a first principle in good organization--too frequently ignored.

Another point that I would like to make is that you can't set up an organization and walk away and leave it and expect it to stay under control. If an organization is worth anything to you it is important that you take an interest in how it operates. You can't have control without good lines of communication--up and down and sidewise. If you are going to control policies you must understand what your organization is trying to do and you must set up standards of performance to see that it is done.

Have we given enough research attention to meetings of various kinds, including local cooperative membership meetings, as a means of giving farmers information and a measure of control. I recall a general manager saying that a series of regional meetings were invaluable in giving management personnel a direct relationship to members. This organization has always listened and given full consideration to farmers' views expressed at these meetings. Many cooperatives have used other devices to give farmer members organic unity with management. I might mention the Sunkist Grower Conferences, described in the August News for Farmer Cooperatives. The member congress of the Greenbelt Consumers' Cooperative is also an experiment to find a way for more direct involvement of members in their organization. Studies of such experience on a case study basis would be well worth the effort.

I doubt also whether enough study has been given to annual reports and membership publications from the standpoint of what they should contain for better membership understanding. In these Madison Avenue days there is often a tendency to substitute the shadow for the substance. I doubt whether an elaborate and beautifully issued annual report is worth the cost unless it also has some protein in it. While some cooperatives have gone too far in selling rather than in telling their members, many are doing a fine job in providing members with information essential to understanding. This builds the member's respect for his cooperative. I would like to see more research in this area--to find out whether members will read about their organization if given the chance, and what kind of information they need and want. To my mind, there is a close relationship between communication systems and control exercised by members. Can there be a good communication system without control? Or vice versa?

The problem of control becomes even more complex when we think of the national federations, such as United Cooperatives, National Cooperatives, Central Farmers Fertilizer Association and the Producers Export Company. How do farmers control these organizations? Let's take a brief look at one of these regionals, the recently-formed Producers Export Company. To begin with, a farmer producer is a member of the local elevator. The local elevator is a member of a regional grain marketing cooperative. The regional is a member of the National Federation of Grain Cooperatives. And regional members of the National Federation that file applications may be accepted for membership in the Producers Export Company.

It's a long way from the producer on his farm in the grain belt to the Producers Export Company in New York City. Actually, the direct voting of the farmer member for men to represent his interests stopped at the local elevator level. From that point forward the farmer or producer member is represented indirectly by men not of his direct choosing. Is this a point of organization and business strength, or is it a point of weakness? Is it a trend that should be further exploited and encouraged? Or is it an insidious development that threatens the democracy of farmer cooperatives? How far removed from farmer members and patrons can a national cooperative be and still retain its status as a farmer-owned, farmer-controlled association? Do farmer members control these organizations or is it vice versa? Who should control? And how?

Research is needed to determine ways of keeping the channels of communication and understanding open all the way back to the farm. The directors of some of these integrated regionals are all managers of other cooperatives who may or may not be producers in their own right. There are many who hold to the idea that the directors of any farmers' cooperative should be producers elected from the membership. Yet, left to their own devices, farmers would have never gotten into some of the complex business organizations they now find themselves in if it had not been for the push and aggressiveness of managers with vision. In pursuing this line of development, however, the channels of communication between the regional and the farm may have been nearly broken. How can we apply research to meet this problem? The Producers Export Company is trying to meet it by bringing in directors to its central office for monthly periods on a rotation basis. This procedure recognizes this important problem, and it will be interesting to see how it works out.

The Control Job of Directors

Research to build an effective system of control for large and complex cooperatives must deal with the control function of the board of directors. It is through the board that membership control is largely exerted.

The Board is the trustee of the members in representing, safeguarding and furthering their interests. This legal and moral responsibility cannot be delegated, but it is frequently neglected.

In the Harvard Business Review for May-June 1958, E. Everett Smith has a challenging article on the neglect of directors. He gave his article this title, "Put the Board of Directors to Work." Many cooperatives can take this advice.

Mr. Smith wisely observes, "If we are not to treat the Board as an impotent second-class citizen we must develop criteria that it can apply not only to each segment of the business but also to the business as a whole. By criteria, I mean material that will really identify in each segment the key factors that control profits and the general health of the business." He also makes this keen comment, "If we compare the standards of performance and measurement criteria used by a well-managed multi-division company with those supplied the average board we will find an amazing double standard. The company executives are in a far better position to appraise and evaluate division performance."

Mr. Smith feels that the chief executive of an organization should really give consideration to the problem of developing an understanding of the responsibility of the board. He should do everything he can to make the work of a board effective. He should review the agenda and the material presented to the board. He should eliminate as much routine and irrelevant data as possible. He suggests that Parkinson's "Law" should be studied, particularly the section referring to the Finance Committee, which states that attention is in inverse proportion to the amount involved. This suggests that we should carefully study to see how we can make board meetings effective and useful--stimulating and, even exciting.

How can we raise the levels of control performance by boards of directors? First, we must know more about the job being done. We hope to help establish higher standards of board performance through a study we are now making of board procedures in regional cooperatives.

One regional cooperative has a board of 80 members. This seems large, but the president maintains that it gives the farmer a feeling that the organization is his. Another has a board of 53 members and an executive committee of 12 directors who are, in effect, the operating board. Does this stimulate membership control? Research might tell us.

On the other hand, a director of a regional cooperative recently complained to me that a board of 14 was too large. He believes that in a board this size factions develop and managers play one faction off against the other and keep control. Shouldn't we give more study to size, type, and functioning of boards?

Many board members of large organizations, whether cooperative or otherwise, are not adequately trained to meet their responsibilities. I have long believed that a course of training should be carried on for new board members to enable them to assume earlier their share of director responsibilities. Some cooperatives have such programs but most let the director catch on as best he can. For example, we frequently hear such remarks as this: "It takes five or six years to train a good director." Or, "I am opposed to the revolving of directors because it takes six years to train a director and we don't want to lose him just after we get him trained." Any "training" that the director gets is usually on his own initiative.

Are we not wasting a lot of talent through lack of training of cooperative directors when they first come on the job? I would like to see a study made to determine what kind of training a director should be given when he first becomes a director. If we were to give a test to determine the fitness of directors, what kind of questions should we ask? What qualifications should directors have?

Every once in a while I run into someone who takes the position that cooperatives should go outside and hire "competent" directors because directors selected from their membership are not capable of controlling a large cooperative business organization. I am a little skeptical of this for within the membership of most cooperatives are men with broad business and financial experience. I believe there are members available to most cooperatives as directors who can do a competent job if given the training and opportunity to do so. On special technical problems cooperatives can usually obtain research assistance.

One way that directors can exert control over a cooperative is to have special committees within the board to inform themselves on special functions and problems. It seems to me that a large organization should have special committees dealing with such important areas as finance, membership, facilities, and services. Moreover, membership of these committees might revolve so that a director could serve on a number of committees over a period of years. The aim should be to have directors fully understand the organization that they direct.

I am aware of the fact that cooperative managers must be given a free hand. If they are controlled too tightly they won't be able to meet competitive situations as they arise. The problem is to give the manager freedom and control at the same time.

We frequently hear of manager-dominated cooperatives. I am not critical of strong management personnel in a cooperative, but it should know its place and not exceed the authority inherent in its delegated responsibility. If members of a cooperative are to exert a proper degree of control they must be fully informed on the operating methods of their organization. Its principles and procedures must be clearcut.

In the same way, while we need a strong executive as President of the United States, we do not want a dictator. He should be a leader but he should lead in the light of the needs of the people. That's about the way I feel toward managers. They must continuously show that they are working for members rather than themselves. I believe that research in management practices will help us find the ways to better control.

Organization for Control

Unless an organization is logically set up, with well-defined lines of authority and well-understood divisions, departments and functions, it is impossible to effectively control it. I am glad to say that many cooperatives are simplifying their structures so that even though they are larger they are less complex than they used to be. I can remember one organization that got so complex that even the general manager couldn't explain it.

The accounting phase of cooperative business enterprises offers an excellent area for the development of better membership understanding and helpful administrative controls. Every farmers' cooperative should have proper records to show it where it's been, where it is, and where it's going. Cooperatives shouldn't cover themselves up with records but, on the other hand, they should not try to get along with as little as possible. Every manager should make his records tell him what he wants to know and what his membership should know. If his records won't answer his questions and those of his directors and members, then he's probably keeping the wrong kind of records. Financial statements in themselves do not provide control, but they give a very definite indication where controls are needed. Moreover, comparative analysis of one year with another, and one period with another can give standards for control by management. Many cooperatives are weak and deficient in accounting controls. Research and study of the problem are needed.

Many cooperatives are hard to control because they are not properly departmentalized. In many cases they have not had comptrollers to develop proper accounting records and reports, prepared in such a way that one could understand them.

The progress of an organization can be measured and shown by a few clear-cut indexes, such as growth of volume, growth of savings, overhead costs, percentage of member-ownership. These are good check points, and many cooperatives could well use them in membership educational work. They also provide a good basis for inter-organization comparisons.

One of the major devices for effecting control in an organization is the budget, the projection of what an organization plans to do the following year and how it plans to come out. Cooperatives have not given this problem the attention it deserves.

Some managers even deride the idea of budgets. They think they know their businesses so well that a budget wouldn't be of any use to them. I do not agree. The budget, as a forecast of income and expenditures, is an important planning tool. A budget prepared along sound lines also provides an excellent administrative control device for keeping costs in line and operations active. I believe we need a comprehensive study of cooperative procedures in making up and using budgets.

Moreover, a cooperative organization needs a control system adapted to its own needs and requirements. Every cooperative is "different." Research can well be conducted on the problem of designing control reports to serve executives, directors and members.

A structural question for all cooperatives operating over a wide area is whether certain of their operations could be decentralized. A number of cooperatives have experimented along this line, and we might well study their experience. For example, the G.L.F. in 1953 set up three area offices. Many functions are now controlled on an area basis. What has been learned from this change? Has it strengthened member control?

A number of organizations now operate over wide areas. Examples are: Consumers Cooperative Association, Southern States Cooperative, Eastern States Farmers' Exchange, Cotton Producers Association, Farmers Union Central Exchange, Central Farmers Fertilizer Association, United Cooperatives, National Cooperatives. It would be worth while to explore their experience with decentralization. In this connection, I would like to see a study made for cooperatives comparable to that of George Albert Smith on "Managing Geographically Decentralized Companies," published by the Harvard University Graduate School of Business Administration, 1958. 1/

We need also a general examination of organization and control for a group of our larger regional cooperatives, comparable to the famous study by Holden, Fish and Smith, Top Management--Organization and Control, which examines the management practices of 31 leading industrial corporations.

1/ It is significant that many large business organizations are now recentralizing to achieve better control. See "Countertrend to Decentralization--Top Management Tightens Controls" in Dun's Review and Modern Industry, July 1959. This subject also needs to be looked at by cooperatives in the light of cooperative needs.

This study recognizes three basic zones or levels of top management. Zone 1 has to do with the trusteeship function; Zone 2, the general management or administrative functions; and Zone 3, the divisional or departmental management function. The authors say that in many companies these three fundamental and separable levels of top management appear to be indistinct and confused. The authors say with regard to the board of directors: "Any sound plan of management might well begin with the determination and definition of the functions, responsibilities and limits of authority to be reserved for the board and those to be delegated to general management. It is only by clear delineation of functions that each group will know exactly what part it is to play in the management of the company as a whole."

Do federated or centralized systems of cooperative organization give best control for an organization? There is great danger of an either-or approach. There is no reason why a federated system cannot provide adequate central control if it is properly designed. In the same way, a centralized system can be designed so that it provides for adequate local control.

I recently heard a cooperative leader criticize the federated type of organization on the grounds that it is not flexible enough to meet modern conditions. He holds that the federated system may tend to keep control on the outside or at the circumference of the organization rather than at the center. This is something to be studied before decisions are made.

I would like to refer here to a very important cooperative study just made in England by a special independent commission. After careful examination, this commission found that the consumer cooperatives were losing ground because they are not keeping up with modern trends in business organization. It would appear that many British cooperative leaders are impelled by what J. Kenneth Galbraith would call "conventional wisdom" rather than an objective recognition of facts.

The commission proposed a radical new form of organization oriented toward improvement of retail services.

This study brings out a very important fact. Even though you have a good membership program and a well-functioning board of directors, these aren't enough. The plan of organization must be designed in a forward-looking way in line with the trends of the times.

There is one big question that many regional organizations must concern themselves with today and that is -- if they are going to move farther into vertical integration, how much must they change their organizational structures to meet this problem? Too many organizations are endeavoring to integrate vertically on a base that provides only for horizontal integration. It is not going to be easy to solve this problem but there are a number of organizations who are grappling with it.

Ralph J. Cordiner, President of the General Electric Company, in his interesting book, New Frontiers for Professional Managers, says that the first step in organization is to sharpen up the objectives of a company as a whole to provide a framework for the objectives of each company component and each position in the company.

Cordiner says: "The economy of the United States makes large enterprises both an irreversible fact and an actual necessity for economic and national security reasons." He does not feel that the perils lie in bigness but in the way the energies of large organizations are organized and managed. He thinks that centralized administration can lead to irresponsibility, short-sightedness, inefficiency, and abuse of power. He also thinks that responsible decentralization makes it possible to provide at once the results that come from big enterprise with the human freedom that comes from respecting the competence and dignity of every individual in the enterprise.

In the General Electric system the shareholders, through their board of directors, delegate to the president responsibility for the conduct of the whole enterprise. This responsibility carries with it full accountability for results. Cordiner says that General Electric may be unique in that the board of directors has issued a position guide for the president, stating in detail his responsibility, authority and accountability.

I am sorry to say that few cooperatives have clearcut statements of their objectives. They just haven't thought about the need for them. In too many cases the directors will hire a manager and leave the course of the cooperative up to him. He needs guidelines and broad general direction.

Many of the regional cooperatives have made changes in field organization to take account of the great technical changes in farming brought about by mechanization and specialization. For example, one large regional has changed from a system of all-purpose fieldmen to one where an organizational fieldman is flanked by commodity specialist fieldmen. We have a study underway which will examine the job of field service as now carried on by a number of such regional supply cooperatives.

This brings up the subject of long-range planning. A cooperative needs objectives not only for the present but it needs long-run objectives. It needs to see where it is going. A long-range plan gives all elements of an organization goals to strive for, and thus is an indirect means of control. This is an area where much work, guided by research, needs to be done by cooperative organizations.

Many Research Roads Necessary

There is no general research highway to better control by members of their cooperatives as they grow in size, but a number of research paths can be followed. If researchers take these various and separate trails they may, together, help cooperatives reach the destination desired--practical or workable control by members. While there is no perfect system of membership control, all should strive toward the unattainable ideal--while being very practical as to what reasonable control consists of.

I have noted a number of areas where research can be applied to help on this problem. Many more could be mentioned.

To sum up:

1) Research is needed to help design control systems.

2) Research is needed to help develop better business structures, organization systems and communication channels and techniques.

3) Research is needed on training of directors and their performance on the job.

4) Research is needed on cooperative objectives as a means of control.

5) Research is needed to help develop statistics for control purposes.

6) The whole field of business measurement is too much neglected in cooperatives. Accounting and budget studies designed to give better control by members are needed.

7) Cooperatives need to take a fresh research look at field service and its relationship to member control.

8) Cooperatives need to examine the use of member contracts as an integrating device and control mechanism.

9) Cooperatives need more research on decentralization and departmentalization, as tools for member control.

10) Research is needed to develop long-range plans in the interest of members.

I have enjoyed exploring this topic with you. It is my hope that out of this discussion will grow a greater interest in research to help make farmer cooperatives more truly farmer-controlled business organizations, for I believe that a strong feeling of membership control will give them greater vitality and strength.

BARGAINING COOPERATIVES: THEIR PLACE IN AGRICULTURE TOMORROW 1/

By

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One of the most interesting--and perhaps significant--developments in cooperative marketing today is the growing interest in cooperatives of the bargaining type. Farmers, farm leaders, and even economists, are more and more examining the role and possible benefits that can come from the use of cooperatives formed for the purpose of negotiating the price and other contract terms that are involved in the sale of members' farm products to processors.

While it is my purpose to consider the place of bargaining cooperatives in agriculture tomorrow, it seems essential to begin with an examination of some fundamental changes that have been, and are, taking place in the marketing of farm products. For it is the structure of the market--the anatomy of the market, if you will--and the conduct or behavior of the various marketing organizations in this market, that explains the growth and development of bargaining cooperatives. By the same token, an examination of the market forces should help us see a little better the future role of bargaining cooperatives in a changing food marketing picture.

Fundamental changes have taken place in food marketing. The day of the corner grocery is about over, and in its place we see the large modern supermarket geared to mass distribution and self-service of food to a rapidly expanding population. For instance, in 1939 there were 561,000 food stores in the country, but by 1954 this number had declined to 385,000. Conversely, the average annual volume per store rose from $18,000 to $103,000. Along with this decrease in the number of stores and the increase in their average volume has come an increasing concentration of large stores - both chains and independents. In 1956, supermarkets - those doing over $375,000 a year - accounted for 9 percent of the stores in the country, but had over 62 percent of total sales. Only 7 years ago, in 1952, supermarkets had only 43 percent of total sales, and in 1940, their share of total sales was about 25 percent.

The just-released Federal Trade Commission "Economic Inquiry into Food Marketing" dramatically shows that total food store sales increased from $29 billion in 1948 to $50 billion in 1958. This is an increase of 72 percent, but the sales of single units and chains with less than 11 stores increased only 58 percent. On the other hand, sales of chains with 11 or more stores increased during this period by 118 percent. Stated another way, chains with 11 or more stores accounted for 29 percent of total food store sales in 1948, but in 1958 they were doing 37 percent of total sales.

1/ Talk for Bargaining Cooperative Meeting of American Institute of Cooperation, University of Illinois, Urbana, Illinois, August 12, 1959. Appreciation is expressed for the substantial assistance of Dr. Homer J. Preston and Dr. Wendell M. McMillan in helping me prepare this talk.

Along with this decrease in number and increase in size of retail store has come an integration of marketing functions. The wholesaling function has largely been integrated with retailing - either by retailers purchasing wholesale facilities, by forming cooperative wholesaling groups, or by contracts with private wholesaling firms. This integrating process is now taking another step back toward the producer with retailers and processors vying for control over this phase of integration. The struggle is seen in the processors' attempt to maintain contact with the consumer through promotion of national brands, while large-scale retailers see it to their advantage to push their own private brands.

Before moving on to consider the effect of these trends toward vertical integration on the producers of the raw products, let us first look at the market behavior of these large-scale marketing firms as shown by their procurement policies.

In order to meet the needs of mass distribution, retailers need an assured supply of products, and these products must meet certain specifications as to quality and appearance. Because of the complexity and uncertainty of using price - often it is an estimate of a future price at time of harvest - as a device for integrating supplies with demand, retailers have turned to the integration of the various marketing functions - either by acquiring wholesaling and processing facilities, or through the use of contracts.

As Professor George Mehren stated in a paper submitted before the Sub-Committee on Agricultural Policy, "There have been 2 major changes in the past 15 years in procurement procedures by retailers. First, retailers have become large enough in some local or regional markets to develop their own merchandising policies and thus require suppliers of some food products to sell to the retailers on a straight price-specification basis. Secondly, retailers have become large enough to require many suppliers to adjust the terms of delivery and of services to the physical requirements of the new types of retailing."

Processing firms, too, need to assure themselves of an adequate supply and flow of raw products for efficient and low-cost operation of their plants. Thus, contracts have been long used by processors as a coordinating device to integrate or guide the flow of commodities between the production and processing stages of the food industry.

Thus the procuring of supplies through the use of contracts has developed as a means of integrating various stages of food marketing from the retailer, to the wholesaler, to the processor, and finally to the producer. And it is in this use of contracts that this chain of events involved in the integration of food marketing is currently having a major influence on producers. Where the use of contractual arrangements has developed considerably, such as in dairy, sugar beets, and processed fruits and vegetables, growers have turned to bargaining cooperatives as a means of holding or improving their competitive position, that is, their bargaining power. An exception to the use of bargaining cooperatives in industries characterized by the use of contracts and agreements lies in

those areas where cooperative processing has become an important factor in the industry. Here producers have seized the initiative and have themselves started at the raw product level to integrate forward through the marketing channels.

The most dramatic growth of bargaining cooperatives is currently in the processed fruit and vegetable industry, in which some 35 associations have been formed--over half of them in the past 5 years. Dairy farmers have long used this type of marketing cooperative with about 200 such associations currently operating. In addition, there are some 40 sugar beet associations, and some 20 egg bargaining cooperatives.

In the light of these major changes that have taken place in the marketing of food, what developments can we expect as we look ahead?

In general, there is every indication that the trend toward mass distribution will continue. In fact, recent figures on mergers in the retail food industry show an increasing consolidation of buying power.

This growing system of mass distribution will demand an assured supply of food which can meet its buying specifications. Indeed, the retailers will probably put more and more emphasis on seeing that they get the volume of products they need, when they need it, and where they need it, and of a quality and appearance demanded by the consumer.

While these trends toward further integration of supply and demand may improve the efficiency of food retailing, they may have serious consequences to the grower since this trend means fewer, but larger, buyers for their products.

Two major alternatives face the grower: (1) He may become a passive partner in the mass distribution system or, if you will, a "hired hand" having little, if any, decision-making power, and essentially selling only his labor; (2) He may join with other growers to develop organizations that provide a countervailing power which will help him retain control over major decisions in marketing.

While some farmers will take the first alternative--often through default, most farmers can be expected to seek greater countervailing power. For example, for many years farmers have sought and developed countervailing power through the formation of cooperatives of all types--for the marketing of farm products, for the purchasing of farm production supplies, as well as for obtaining other needed business services.

Likewise, farmers have turned to marketing orders and agreements, particularly for dairy products and fruits and vegetables, to further strengthen their countervailing power in the market. The provisions of market orders and agreements require widespread acceptance by growers, and in most cases farmers have used cooperatives as an organized way of expressing their viewpoints. Since this method provides an industry - or area-wide approach to marketing problems, interest in this method appears to be on the increase.

Agricultural leaders, recognizing these off-the-farm problems facing growers, have increasingly encouraged farmers to develop bargaining power through joint action.

There is some indication that retail organizations may also increasingly favor strong grower organizations as a means of obtaining the benefits of more stable prices. Retailers have a definite interest in uniform prices for products of given specifications. This gives them better market knowledge on which to base purchasing and merchandising plans. Since bargaining associations tend to establish uniform raw product prices among processors, this can contribute to stabilized finished product prices.

The nature of the marketing problem, the past actions of farmers, the encouragement of farm leaders, and the needs of the market indicate that in the future farmers will increasingly use joint effort to develop countervailing power. And it appears that joint effort on the part of farmers is essential, not only to strengthen their competitive position and meet the needs of a changing marketing system, but also as a means to bridge the gap between specialized production and mass distribution. As farmers seek lower costs and greater efficiencies through specialization of production, there will be increasing need to coordinate this production with the specific needs of the market. In fact, such joint action and coordination is essential if the marketing system is to best serve consumers and preserve the independence of farmers.

The basic question that then arises, as we appraise the future, is "How can farmers jointly act together best to achieve countervailing power?"

If the problem facing a particular group of farmers is at the grower-first handler level, then countervailing power needs to be developed here. If the problem is at other levels in the market channels, then action must be taken at those levels.

For example, if growers feel there is a need for consumers to have a greater awareness of their product, they can differentiate their product from other competing food items by developing brands and other advertising devices. While this would be very difficult for an individual grower, growers as a group - say, statewide or regionally - can jointly combine their resources to nationally promote their product. By joint action of this type growers may be able to influence consumer demand for their particular product, and by having a differentiated product increase their competitive marketing position.

Or by jointly or cooperatively processing their raw products, growers may be able to retain control over their product further through the marketing channels, as well as benefit from margins that are involved in performing this additional marketing function. Or again, the coordination of sales activities of several cooperatives through a sales federation or sales agency would tend to strengthen their marketing position; first, by reducing the number of sellers of the product, and secondly, by having available a larger volume of the commodity which would more likely meet the needs of large-scale buyers for large quantities of products meeting certain specifications demanded by a mass distribution system.

Of course, another way farmers themselves can develop countervailing power is to use the method under discussion at this afternoon session, namely develop and use cooperatives of the bargaining type. By jointly negotiating for the sale of their products - or in economic terms, by horizontally integrating the sales activities of many farm firms - growers can obtain some measure of bargaining power at the grower-first handler level. Such joint action reduces the number of potential sellers in the market and at the same time, the combined products of the member-growers makes it possible to more nearly meet the needs of large-scale buyers. These features add strength to the marketing position of growers, as well as make it possible to better coordinate supply with market demand.

We've stressed above the trend toward mass distribution and along with it a continued or increased emphasis on specification buying and the use of contracts. These trends in our food marketing system suggest that the place of bargaining cooperatives will grow and expand in the years ahead. Growers will see bargaining cooperatives in certain types of market situations, as a means of meeting a competitive situation where there are few, but large buyers. On the other side, large-scale buyers may see such coordinated action by growers as a means for obtaining the products they need in the quantity they need, and in the form demanded by consumers. In addition to expansion of bargaining cooperatives by dairy farmers and growers of fruits and vegetables, it seems quite possible that farmers producing broilers under contract may later on negotiate these contracts as a group, rather than individually. This same development might also occur where hogs are produced under contract. In fact, it seems quite plausible that as the use of contracts increases in the coordinating and marketing of farm products, the use of bargaining cooperatives will also increase.

Growers are primarily interested in bargaining cooperatives as a means of improving the price per unit they receive for their crops. While these associations have often increased grower prices and contributed to the stability of prices over time, there may be greater emphasis in the future on grower benefits from other aspects of bargaining. I refer to negotiations on the conditions of sale, which also, directly or indirectly, affect growers' net returns. With the increasing trend toward specification buying, it seems reasonable that negotiations on such items as grades and grading, time of harvest and delivery, service and material charges, and method and schedule of payment will take on added importance.

Of course, bargaining cooperatives are not the answer to all market situations. In some cases, joint action of growers in the direction of vertical integration, such as cooperative processing, seems more feasible. Certainly market orders and agreements, joint promotional activities, as well as other types of cooperative organizations have a place in the marketing of food products. But the need for countervailing power at the grower level can often best be built on the horizontal integration of many farm firms through the formation of bargaining associations. In some cases the bargaining association may provide the foundation essential for the success of a processing or other type cooperative.

In choosing a method of developing bargaining strength, it is important for growers to identify the problem facing them. We can take as an accepted fact that retailing will be done through mass distribution by large-scale retail units. From here on the growers must identify the specific area where the problem most directly affects them in the marketing of their products. For example, in some cases, where national brands are now in use, growers' joint efforts might best be directed at the raw product procurement level. On the other hand, retailers to date have largely procured their supplies for sale under their own labels from already established processors, rather than process their own. Where retailers are developing their own brands it may be necessary for growers to deal directly with the retailers, often through their processing cooperatives. In either case these bargaining cooperatives can offer (1) a marketing tool for dealing direct with national brand processors; or (2) provide a sound base for integrating further into the marketing channels.

I am firmly convinced that bargaining cooperatives--either in the form we now have them, or in some modified form--will assume an increasingly important place in the marketing of tomorrow's agricultural products. Our economy is characterized by increasing specialization, not only in production, but in each of the many marketing functions. Thus it is mandatory that these specialized functions be properly coordinated so as to best serve the needs of consumers in a mass distribution system. The future of bargaining associations and the growers they represent, will depend on how well they provide this coordinating function. We have learned a lot about how to form and manage such enterprises, but continuous research and grower education will be necessary if they are to meet the challenge of their opportunities.

MANAGEMENT BUILDING IN FARMER COOPERATIVE SERVICE [1/]

By Joseph G. Knapp, Administrator
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I think I should say a few things about our Service in the way of orientation. We are a small outfit, as Department Agencies go. Our budget runs about a million dollars. We have about 60 members on our professional staff, and a total staff of about 115. They are grouped in Divisions and Branches.

We are self-contained. We handle our budget, personnel, information, and other functions. We go up to the Hill every year and explain and defend the President's budget for our work. This morning we had the pleasure of reviewing our program with the Bureau of the Budget.

We work with some 10,000 farmer cooperatives which have memberships of 7,500,000, and which do a business annually of over 10 billion dollars. We have to be alert in management to assist them, for many are good-sized organizations. We conduct research, advisory and educational work, much of it in close relation with the state agricultural universities and colleges, extension services, and the departments of vocational agricultural education. We have close liaison with many departmental and other federal agencies.

Not a New Job

We have been at work on this job of improving management as long as I can remember. That is, at least for 25 years when I came in. We have always tried to run an efficient shop--that is, do the job which we are expected to do - well. We have always prided ourselves on one other thing--our staff morale. I have watched the old timers depart and newcomers take their place and become old timers. We have always been proud of our esprit de corps. It is something we do not take for granted. We work to maintain it. We consider the job we do important and we keep the importance of it as a part of our minds.

In our work we are in constant touch with both large and small cooperative organizations. It is our responsibility to help them improve organization and management. We know from experience that the most important factor in cooperative success is good management. We must constantly evaluate programs of management and organization. We are thus to some extent professional students of management. We have to be, in our work.

1/ Notes for informal talk at Luncheon Meeting of Organization and Methods Conference, U.S.D.A., October 7, 1959.

One thing that early impressed me was that we could not be competent in our work with cooperatives on their management problems unless we exemplified in our own conduct -- good management principles. How can we tell others how to delegate authority if we are not capable of doing it ourselves? If we advocate planning for others, must we not see that our own work is planned?

FCS Workshops

Since 1939 we have held an annual workshop of our professional staff. To my mind, this workshop is the key management-building tool that we have in FCS. I remember when we set this workshop up. We did it to improve our methods--our procedures. When we started this program the term "workshop" was not commonly used. In fact, we thought at the time it was an original term. We considered calling it a "conference" or "seminar," but these terms gave way to the term "workshop." Our workshop has been a workshop. We early established the fact that the workshop should be attended by all members of the professional staff. All members are expected to attend if they are physically able. Each workshop has a planned program, developed by a staff committee under a workshop chairman. The title "workshop chairman" has status in our agency. The workshop chairman and his committee begin making plans for the December workshop during the summer. Suggestions from the staff are obtained and a theme for the year is developed.

We use this meeting to keep up to date on what is happening; to make contacts with other parts of the Department; to gain inspiration to direct programs; to improve techniques; to clarify misunderstandings; to build morale; and for many other purposes. I cannot overestimate the importance of these workshops. We don't stop with the workshop, either. We appoint a "Highlights Committee" which has the job of getting out a report on each workshop. We also generally have an appraisal session following each workshop. Moreover, I invite memorandums from members of the staff on how they would make the next workshop better. So you see, the workshops represent a continuing process.

Our Quarterly Reports

Another tool that we use in management building is our quarterly report. This is a report that is tailored to the needs of our program. On the cover of each report is this statement:

> "This report is primarily a work improvement and coordinating tool for the Service. It provides the Office of the Administrator with current information on main work accomplishments and plans in the research, service, and education program of the Branches. It also enables staff members to see how their work fits into the total program of the Service."

Our quarterly report has a long history. It has served us well for over twenty years. Before we had this report the Chief could not keep track of our program, and members of the staff did not know what other members of the staff were doing. As a result, we operated too much on an "every man for himself" basis. This cut down on our performance and did not improve our team spirit. The situation got so bad one time that I gave the Chief a memorandum in which I reported on work that we had been doing in my section for the past quarter, and I outlined jobs which we planned to do in the ensuing quarter. In sending forward the memorandum I indicated that I wanted the Chief to be informed of our accomplishments and plans. He immediately called me into his office and made me Chairman of a committee to develop a comprehensive quarterly report for the entire organization. Kelsey B. Gardner was a member of this committee. For many years we have reported quarterly, work accomplished, work underway, and work planned. We have gradually tightened up this report through periodic evaluations and maintain it as an up-to-date vital control and informational device. In a nutshell, this report presents our program in action.

Our Management Lectures

In 1956 I came to the conclusion that we needed to keep the subject of management more constantly in mind. I saw many advantages in having our staff well informed on modern management thinking, and conceived the idea of bringing in from time to time outside speakers to raise our sights in dealing with management problems. This was the beginning of what we call our Management Lecture Series. In our first lecture in this series, Dr. Theodore Kreps, Professor of Business Economics, Stanford University, described the management development training programs being carried on for industrial leaders at Stanford, and gave us his views on new approaches being taken in the field of management. I would like to note some of the other speakers and topics we have had in this series:

James F. Grady, Dean, School of Management, Foreign Service Institute, Department of State, "Executive Development: Objectives and programs."

Dr. Edwin G. Nourse, formerly Chairman, Council of Economic Advisers, "Relation of Business Management to Public Policy."

Warren A. Ranney, Director, Public Relations, Cooperative G.L.F. Exchange, "The Man in Management."

Fred W. Babbel, Administrative Assistant to the Secretary, "Essentials of Good Management."

Stanley Andrews, Executive Director of the National Project in Agricultural Communications, "New Developments in Agricultural Communications."

Our two latest topics have dealt with general problems of supervision:

William R. Van Dersal, Assistant Administrator on Management, Soil Conservation Service, spoke under this title: "Getting the Most out of People."

Tom Lawrence, Senior Partner in Lawrence-Leiter & Co., Management Consultants, Kansas City, Missouri, spoke on the subject: "Leadership Starts With You."

It may interest you that all of these speakers have donated their services, and programs have been arranged while they were in Washington. Several of the topics and speakers have been suggested by staff members. For example, a few months ago Henry Bradford of our Service told me of a very fine talk Tom Lawrence had given at a cooperative conference which he had attended. He said he would like to have every member of our staff hear this talk. So I wrote to Mr. Lawrence and invited him to contribute as a public service. We worked out a date and a topic and we had a very enjoyable and profitable session with him.

We do not try to run these talks too frequently -- three or four a year. It is my idea that they should be stimulating and should fit in with our needs. I have two lectures in prospect that I hope we can fit in during the fall and winter.

I think these management lectures have served a good purpose, and members of the staff seem to enjoy them. We keep talking about the views of the speakers--and this seems to me to be a good sign.

Our In-Service Training Course

We find that no matter how well trained our members of staff are they need a refresher course in agricultural cooperation, given by staff. This gives new staff members an idea of what we are trying to do in Farmer Cooperative Service. It also broadens their acquaintance with senior personnel.

We have made Dr. Martin A. Abrahamsen the Dean of this course, which we hold about every two years, or when we accumulate a crop of new employees. We have had three courses of this type.

The third In-Service Training Course of this type was held last winter. Subjects discussed in the twelve sessions and the instructors were as follows:

1. Farmer Cooperative Service: A. Agency and staff responsibilities;
   B. Relationships with Government and Non-Government Agencies;
   C. Objectives of In-Service Training Course (Joseph G. Knapp).

2. Basic Objectives of Farmer Cooperatives (M. A. Abrahamsen)

3. Philosophy and Theory (M. A. Abrahamsen and J. K. Savage)

4. Principles and Practices (M. A. Abrahamsen and J. K. Savage)

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4. Principles and Practices (M. A. Abrahamsen and J. K. Savage)

5. Legislation and Legal Basis for Cooperation (Raymond J. Mischler)

6. The Development of Cooperative Policy in the United States (Kelsey B. Gardner and M. A. Abrahamsen)

7. Management Problems (Kelsey B. Gardner, David Volkin and Nelda Griffin)

8. Terminology and Accounting (Otis Weaver)

9. Possibilities and Limitations of Cooperatives (J. K. Samuels)

10. Membership and Public Relations (Irwin W. Rust)

11. Seminar with Emphasis on Place of Cooperatives in the Economy (Instructors and students)

Our Letter-Writing Workshop

We have also got a great deal out of a letter-writing workshop, held about a year ago, under the direction of Mrs. Virginia Thatcher, of Joe Loftus' Office of Administrative Management. About half of the professional staff and some of the secretaries attended. We are going to hold another workshop of this type for the balance of the staff as soon as it can be arranged. It helps, not only in better communication through letters--it makes more effective writers.

Our Better Writing Workshop

We are in the publishing business. We get out a monthly magazine, the News for Farmer Cooperatives, and a hundred or so written reports each year. Effective writing is essential to our operations. Mrs. Stanton, Director of our Information Division, saw the need for a Training School on Better Writing and, as a result, we had a three-day Writing Workshop in June, 1956. All members of the professional staff were expected to attend. This Workshop performed an invaluable function for us, and it helped us improve our management in the publication field.

Our Staff Luncheon Programs

Out of an employee suggestion came our staff luncheons--four a year--with programs developed by the staff, and meetings conducted by the staff. Last year the four meetings considered how to improve communications--how to conduct a meeting, etc. These were fun and pleasant. They recognized the staff interest in self-improvement. In developing this program Ken Wright of Agricultural Marketing Service was our adviser, monitor, and friend.

Our Trip Reports

Our professional workers are travelers. They must represent us in important field contacts. As Administrator, I want to know what they find in the field and how they carry on their work. Every traveler makes a trip report immediately upon his return to the office, to me, his Branch Chief, and Division Director. This report calls for specific information, contacts and a narrative report. These trip reports provide a mine of useful information. I read them carefully and acknowledge each report. I may wish additional information, or desire to talk with the traveler or his supervisor. These trip reports provide a fine basis for evaluating personnel and recognizing achievement.

Counseling

I consider nothing more important in management building than counseling. This is how we can develop judgment in personnel. We give our employees plenty of rope, but we must be careful that they don't hang us and themselves, too. A large share of my time is given over to counseling and much of the time the employee doesn't know he is being counseled. I frequently say to a younger man, "Talk this over with 'K.B.' or 'Abe' or 'Sammy,' or 'Beryle' or 'Harold,' or someone else. We all share this counseling job.

Our Prospective Management Workshop

Next March we are going to have a workshop on management to see that every member of our professional staff has a systematic course in the principles of management. We have been working with Professor Bob Seymour, Director of the Executive Development Center of the University of Illinois, in building our program, and he will serve as our Dean. I am very enthusiastic on the values that we will get from this.

Internal Improvements

"Management building" must embrace everybody in an organization. The secretaries can help train the bosses. Through orientation and special training conferences we are trying to sharpen up secretarial and clerical skills in handling our office affairs.

Another management tool is the incentive award system. We have got good results from its use. It gives staff an opportunity to suggest ideas and see them put to use.

We are also working on our files. A lost report can demoralize even the best manager.

There are other things I might mention, but these show our approach. Members of my staff who are here will tell me what I skipped when I get back to my office. We have made some progress, but the job of management building is never done.

THE FARMER AND HIS GOVERNMENT *

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I like the subject given me, "The Farmer and His Government." It recognizes the fact that the farmer has a possessive interest in his govenment, just like all other citizens. It implies that the farmer has responsibilities to and derives benefits from government. The farmer certainly has as much stake in government as anyone else.

I have long been impressed with the high sense of civic consciousness of the Dairymen's League. The story of the formation of the League is a great chapter in the struggle of farmers to gain and maintain economic independence, and improve their position in society.

For many years I had the privilege of knowing your great leader, Judge John D. Miller, one of the outstanding men in the history of American agriculture. He stood for the highest type of principles in business, government, and in everyday life. He brought great respect to agricultural cooperation. I recall his deep sense of fairness and how he would insist on giving the other fellow an adequate opportunity to be heard.

Among my treasured possessions is a letter that I received from Judge Miller, dated June 12, 1946. Some of his statements in this letter are highly pertinent today. He then said: "No organization is in greater peril than in the hour of its good fortune. We can continue to receive support only as long as we deserve it. The one great fundamental that never should be forgotten is that farm cooperatives must be farmer-owned and farmer-controlled." He also said: "Nothing unjust can be permanent. Nothing unjust can endure. This is a principle as old as the world, as old as the Maker's first plan of the world."

It was Judge Miller who led the fight for the enactment of the Capper-Volstead Act of 1922, which established the right of farmers to work together in cooperative marketing associations. Senator Capper publicly acknowledged that Judge John D. Miller was the father of this legislation.

New York State has contributed many other great agricultural Statesmen. I think here of Dr. Liberty Hyde Bailey and of his great contribution to rural life as Chairman of President Theodore Roosevelt's Country Life Commission. In his beautifully written book, "The Holy Earth," he said, "The real farmer, the one whom we so much delight to honor, has strong moral regard for his land, for his animals and his crops."

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* Talk for 40th Annual Membership Meeting of Dairymen's League Cooperative Association, Inc. War Memorial Auditorium, Syracuse, New York, October 14, 1959. The theme for this meeting was "Changes, Challenges, and Leadership."

Then he added: "No nation can long persist that does not have this kind of citizenry in the background." He was a constant advocate of self-help, of farmers' accepting responsibilities and doing things for themselves.

I recall here the pleasure of giving a talk to a special luncheon of your women leaders at your annual meeting in October 1951. This gave me a fine opportunity to see how the League is an organization of farm families. You have done a tremendous job in broadening the scope of cooperation to include women and young people. You realize that farming is something more than just a business and that it is the preservation of homes as well.

As the relationship of the farmer to his government is such a broad and complex subject, I will limit my comments here to three points which seem significant to this gathering.

First, I want to stress the fact that farmer cooperatives are nothing but organized farmers. Thus, in dealing with this subject, one must give attention to cooperatives. Second, I want to indicate how the partnership between farmers and government has evolved. Third, I want to emphasize the constructive function that cooperatives can perform in working with government in behalf of the farmers they represent.

1. Cooperatives Link Farmers and Government

I know that your organization has broad interests in the field of government. This is evident from a review of your activities and the resolutions adopted at your last annual meeting. One of your resolutions last year read as follows: "Whereas, the welfare of farmers is directly affected by state and national legislation, Be it Resolved, That all League families be urged to become fully informed on such legislation and make their views known to their legislators."

There is much to the old adage: "The price of liberty is eternal vigilance." The citizen must always take an interest in his government if he is to have the kind of government that he wants. He cannot expect legislators to understand his problems unless he makes them clear.

I liked the talk of your President, Stanley H. Benham, at your recent Young Cooperator Institute, in which he stressed the importance of "distant fields." By distant fields he had in mind such matters as national legislation, law administration, sanitary regulations, and agricultural public relations.

You may recall that he said,"We need to learn how to be effective in farming our distant fields, those fields of activity that lie beyond the geographic boundaries of our farms but where the kind of crops produced may have just as much effect upon our business welfare as our degree of efficiency in producing grains, fruits, cattle or milk within our line fenses."

Mr. Benham also said: "Only very large marketing and processing cooperatives, perhaps larger than any we presently have, can successfully compete with large corporations in this field." He maintains that the successful farming of distant fields can "only be done through organizations of farmers," and comes to the conclusion that: "We will need larger and better financed farm organizations than we now have and they must be managed by the best business talent." This makes sense to me.

The National Milk Producers Federation reported recently that some 300 pieces of proposed national legislation affected dairy farmers during the preceding year. It is quite obvious that an individual cannot keep in touch with all of the legislative, plus the administrative and judicial matters that affect agriculture--even one segment of agriculture. That is why farmers must have farm organizations and cooperatives to keep them informed and to represent their interests.

In this connection, I have just come across a statement in a cooperative magazine which reads as follows: "Our association can help growers avoid confusion." I think this is a rather significant idea, for as our marketing problems and programs become more complex they become more confusing to the individual farmer who has to deal with them. A man who is confused cannot act intelligently, while an organization which can watch economic and marketing affairs continuously can look out for the interests of its farmer members and help them avoid confusion.

I would like to pay tribute here to the Dairymen's League News and the many other fine publications being issued by farmer cooperatives to help farmers keep informed and free of confusion.

Many are calling attention today to the fall in farm population. However, I am not too concerned that the influence of farmers will decrease as the farm population declines if their needs are well analyzed, coordinated and presented, for our citizens generally recognize the value of a prosperous and efficient agriculture. If farmers will make clear what they reasonably need to best serve the nation, the rest of the country will go along with them. Our philosophy of democratic government is based on the principle that our citizens are fair if they know the facts.

Without question, the importance of farm organizations and cooperatives in representing farmer interests increases in significance as the number of farms declines. Dr. Bushrod Allin, Chairman of the Outlook and Situation Board in the U. S. Department of Agriculture, made this clear recently when he referred to the "growing political and economic sophistication of family farmers." In his opinion, such farmers have learned that their membership and participation in organizations is as essential to their place in the sun as their votes and contacts with congressmen. As Dr. Allin said, "While individual action is no less important today than in earlier times, it now operates, to a larger extent through the general farm organizations, commodity groups, trade unions, and business groups." This line of thinking recognizes that group action plays a dominant part in our lives today.

2. Farmers and Government Have Common Objective

In preparing for this talk I gathered together a large number of books and reports dealing with the subject, "The Farmer and His Government." I wasn't able to read them all carefully, but I wanted to see just how others had dealt with this subject. Anyone who examines this literature will realize that Government and agriculture are intertwined and that farming is a matter of concern to all citizens. This long-continuing relation between Government and agriculture is summed up in the declaration carried on the west facade of the South Building of the Department of Agriculture, which reads:

"DEDICATED TO THE SERVICE OF AGRICULTURE FOR THE PUBLIC WELFARE"

Some years ago a committee of agricultural economists made the following statement which I believe most citizens will subscribe to: "The farmer is entrusted with the use of land, one of the nation's most prized possessions. ---The farmer is implicitly charged with responsibility of making such use of this great asset as to sustain its yield and usefulness in the interests of the general public and future generations." The farmer looks upon himself as the custodian of this national resource, but he doesn't feel that he should have to take the total responsibility in protecting this heritage. He feels that all citizens should share to some degree this responsibility through their government.

It is not easy for farmers to understand and keep in touch with the many and diverse government activities that affect their interests. We can almost say that all government actions have some bearing on dairy farmers and all other agricultural producers.

Farmers today must be interested in our policies on defense and foreign assistance, foreign trade, welfare and labor. In other words, farmers are concerned with everything that helps to make their government effective and their country prosperous. Examples are good roads and good mail service. It is to the farmer's advantage that all segments of the nation be prosperous, for he cannot prosper alone.

Let's come closer home and look at the farmer and his Department of Agriculture. The farmer has a direct interest in the crop, livestock, marketing and other research programs carried on by such departmental agencies as the Agricultural Research Service, and the Agricultural Marketing Service, and by the related agricultural experiment stations. He is dependent upon the national government for crop and livestock statistics. He relies upon the Foreign Agricultural Service to keep him in touch with markets throughout the world. He is served by programs of agricultural education carried on through the Cooperative Agricultural Extension Service and the land-grant colleges and universities. The work of the Forest Service concerns him, for a large part of our timber reserves are held by farmers. Likewise, he has a vital interest in the Soil Conservation Service which works to preserve our land resources.

Let's not forget the farmer's interest in the important work of the Farm Credit Administration and the Rural Electrification Administration or many other agencies in both the Department of Agriculture and elsewhere in government which serve farmers. Of course, I appreciate your interest in the work that we do in the Department's Farmer Cooperative Service to help farmers help themselves.

To understand where we are today and where we are going we need to look back over the road we have travelled. I doubt if many people realize how much our vaunted agricultural industry has developed in partnership with Government. This is shown by the growth of many governmental services to serve farmers largely put on the statute books by the farmers themselves, but with the general consent of the entire public in view of their value to all. Let's take a few minutes to gain perspective from a review of this experience.

Our Federal Government has always been concerned with agriculture. This is natural, for we were predominantly a rural nation up to the start of this century. As early as 1796, George Washington recommended that Federal funds be provided for the promotion of agriculture, but Congress took no action. The real beginnings of Federal service for agriculture go back to 1839 when Commissioner Elsworth of the Patent Office began gathering crop statistics. The Act founding the Department of Agriculture was signed by President Abraham Lincoln on May 15, 1862, and on July 2, 1862, the Land-grant College Act was passed. You will recall that the Homestead Act, which was so influential in opening up the West under our family farm system of farming, was passed in this same year.

It was during the half century from the close of the Civil War to World War I that we witnessed the passing of the frontier and the major transition from rural to urban industry. As Dr. E. G. Nourse, formerly Chairman of the Council of Economic Advisors, has pointed out, this made farmers more class conscious and caused them to form agricultural organizations of large size and geographical spread to exert their political influence. It is significant that many of our laws today originally designed to curb the power of rail and other monopolies and to protect the freedom of enterprise, date back to the powerful Granger and other agrarian organizations which flourished during the last quarter of the past century. But, as Dr. Nourse made clear, farmers enjoyed no privilege in advancing their interest which was denied to others, for they operated "under the same legal framework, legal opportunities, legal requirements, and legal responsibilities" that applied to other industries.

Many of our present governmental service agencies for agriculture were established during these years prior to the opening of World War I. Our modern research investigations in the Department of Agriculture started in 1884 with the establishment of the Bureau of Animal Industry for the eradication of animal diseases. In 1887 the Hatch Act provided for Federal assistance in setting up experiment stations, and in 1889 the Department of Agriculture was given Cabinet status. According to a historical review

by T. Swann Harding, the Department began to gain significance at about this time. Let me quote his words: "Because of increasing complexities of the agricultural enterprise farmers found it more and more necessary to have in Washington a strong reliable department to serve them . . . Step by step, the will of the people, as transmitted through Congress, made the Department evolve into a large and influential institution."

This was the period when emphasis was given to improved crop production, and every effort was made to make two blades of grass grow where one grew before. The Bureaus of Soils, Plant Industry, Forestry, chemistry, and Entomology--were all founded in the early 1900's. Work was also begun or expanded in agricultural engineering, dairying, irrigation, drainage, marketing, extension, agricultural economics, and statistics. It is of interest that the personnel of the Department of Agriculture grew from about 2,000 employees in 1897 to over 12,000 by the end of 1912.

A great change in agricultural conditions, emphasized by the coming of power farming, began to make itself felt just prior to World War I. New activities were undertaken as new problems arose. Various regulatory laws were enacted and turned over to the Department for enforcement--meat inspection, animal quarantine, and the Food and Drug Act. Such economic problems as the provision of a better marketing and credit system led to the establishment of the Bureau of Markets in 1917, and the Federal Farm Loan System, started in 1916. The Extension Service was established in 1914.

It is significant that the first appropriation for work to help farmers with their cooperative problems was made for 1913. Our work in the Farmer Cooperative Service thus got its start almost fifty years ago. It was in this general period that such regulatory Acts as Grain Standards, Cotton Futures, Warehouse, Packers and Stockyards, and Commodity Exchange Acts were passed.

The agricultural depression following World War I resulted in a great demand for additional governmental services. Emphasis in these years was given to the strengthening of farmer cooperative organizations as a means of helping farmers solve their marketing and other business problems. In fact, cooperation became the issue of the hour. In 1922 the Capper-Volstead Act was passed, which gave protection to the legal form of the cooperative organization. In 1926 the Cooperative Marketing Act was passed, to give permanence to the research, advisory service, and educational activities, carried on to help farmers build and strengthen their cooperative organizations. By the Agricultural Marketing Act of 1929 the Federal Farm Board was given the job of stabilizing agriculture and it undertook to do this through the establishment of nationwide agricultural marketing cooperatives.

I would like to quote the following excerpt from Section 1, of this act which is still in force: "That it is hereby declared to be the policy of Congress to promote the effective merchandising of agricultural commodities in interstate and foreign commerce, so that the industry of agriculture

will be placed on a basis of economic equality with other industries,---
(3) by encouraging the organization of producers into effective associations or corporations under their own control for greater unity of effort in marketing and by promoting the establishment and financing of a farm marketing system of producer-owned and producer-controlled cooperative associations and other agencies."

The objective of all of this cooperative legislation was to preserve the family farm as the basic operating unit for agriculture by facilitating and encouraging the sound development of agricultural cooperative enterprises as complementary servicing organizations. It was believed that this would give the cooperating family farms the advantages of scale in marketing, purchasing that were available to general business corporations.

The inability of the Federal Farm Board to control production led to the passing of the Agricultural Adjustment Act in 1933, and this placed Government in a new relationship to agriculture in that the Department of Agriculture was given responsibility in production control. Marketing Orders to achieve orderly marketing were also made a part of this program.

The Farm Credit Act of 1933 provided for a comprehensive cooperative credit system for agriculture; and, in 1935, the Rural Electrification Act opened the door to the electrification of rural America, largely through rural electric cooperatives. These and many other legislative Acts during the depression thirties expanded governmental services for farmers to help them meet problems beyond their individual capacities.

During the past twenty years, problems of war and postwar adjustment have been predominant. It has been a testing time for farmers, for it has been a period of explosive technological revolution with rising costs. This situation partially explains the enactment of the Research and Marketing Act in 1946, which was designed to give agriculture research parity with industry. Special emphasis was directed toward improving the marketing and utilization of agricultural products. This law has intensified agricultural marketing research, not only in the Department of Agriculture but in the land-grant college system. One fact being made clear by this research is that prices paid by consumers are not necessarily reflected by our marketing system in the prices that farmers receive.

Our national farm problem in recent years has been to work out a way to expand markets and handle the surplus arising from increasing agricultural efficiency. Utilization, nutrition and export programs and an expansion of sound basic information to improve the working of our marketing system are essential to the alleviation of this situation.

3. New Era Calls For Stronger Cooperatives

We seem to be coming into a new era--a time for re-examination of policies. A great debate is going on as to how much Government action is called for to protect the interests of agriculture and serve the interests of the nation. I believe that in the period we are coming into, cooperatives are

going to perform a more important function in helping stabilize our agriculture than at any time in the past.

We are now going through a major change in our agricultural and industrial methods and it is difficult to adjust to it. However, the adjustment is being made and we are beginning to see the kind of farming industry that we are going to have in the future. As Dr. John has pointed out farmers must produce more for consumer specifications. The agriculture of tomorrow calls for stronger cooperative organizations which can take on more responsibilities to help farmers on their quality and other marketing and production problems. As in the past, cooperative organizations will need to work closely with Federal and State governments on research and other technical matters related to their industry. It seems to me imperative that farmers through their cooperatives build up all possible strength within themselves so that they will be even more generally recognized as responsible agencies, speaking for and serving farmers.

Cooperatives in the dairy industry have already demonstrated how they can represent their producer members under the Federal Milk Order program. It is generally recognized that the success of a Federal Milk Order depends upon producers' organizations that can speak for, and represent, the milk producers in the market.

We might ask--what do farmers want from government? For one thing, they want economy and efficiency, and they want general services that will help them maintain their industry. We are proud of our agricultural productivity and we have used our government to help us make our agriculture the most productive in the world. This achievment has come from a partnership of farmers and government - not from farmers alone.

As population increases and foreign markets expand, can we be sure that present surplus problems will always haunt us? There is a limit to exhaustible resources even with unlimited scientific progress. It may be that in 25 or 50 years conditions may change considerably from what they are today. As Dr. Don Paarlberg, Special Assistant to the President, said last week in his address on "Food for Peace," in opening a lecture series in the Department auditorium on "The International Age in Agriculture": "As recently as a decade ago, the country was concerned about its ability to supply the food needs of our rapidly growing population. These were the days of the so-called 'fifth plate.' Today we're not worrying about filling the 'fifth plate'; we're hunting instead for a 'sixth customer.'" We must be careful how we use our present abundance while we develop long-range programs needed for our future citizens.

I sometimes wonder whether we have comprehended the potentialities of cooperative organization as related to the welfare of agriculture and the building of a stronger nation. Hasn't there been too much inclination to look upon cooperation as simply a means of buying and selling rather than as a way of organizing the business interests of our family farmers? If we have undertaken to do too small a job this may explain why we have

failed to do a larger job, because small goals will only yield small results. People's imaginations are not caught by small goals.

Cooperatives have come a long way in developing highly integrated enterprises since the Dairymen's League was formed. They are better organized, better financed, better managed, and they can assume greater responsibilities than cooperatives could in the past. Farmers now look to them to a great extent to handle their business transactions.

As farmers become organized in stronger cooperatives these organizations can exert more influence in representing the interests of farmers. This does not mean that they can develop a monopolistic control over supplies, but they are in better position to regulate supplies to market and to take advantage of bargaining opportunities. They can be stronger forces in collective bargaining because they are significant organizations in the agricultural trades in which they operate.

A few strong cooperatives in a market can give leadership to a market. Frequently, farm prices have been demoralized in a market because there has been no strong farmers' organization that could set the pace or that could provide good standards of service. The influence of an organization like the Dairymen's League cannot be disregarded in the New York Milkshed with regard to the marketing of milk, and it is an influence beneficial to both producers and consumers.

Cooperative organizations have become a prominent factor in the business organization of agriculture, and I don't think that we are going to watch this process go the other way. To my mind, cooperatives are a device through which farmers can cope with many of their problems, and I see every reason for farmers to use every legitimate means to develop such organizations necessary to their industry. Labor and business are strongly organized, and farmers must be likewise if they are to play in the same league.

Let us look at something right near home--the subject of economic integration. This is a subject of great concern to farmers. How are they going to cope with integration? Cannot farmers answer this question for themselves by developing strong integrated programs through their cooperatives?

What is holding back cooperative progress along this line today? A few years ago I solicited the views of 100 agricultural leaders on this general question. Their replies indicated that the things holding back cooperatives were within the control of farmers themselves. It was recognized that farmer cooperatives would have to make more use of planning and research and become larger, better-financed, better-managed, and better-supported.

Do farmers have enough confidence in the cooperative way of doing business? This, to my mind, is the key question. They have the tools to build stronger cooperative organizations if they will use them.

I am encouraged by a change of attitude in recent years. It is becoming more generally recognized that farmer cooperatives are a necessary means of preserving the individual family farm modified to meet today's larger requirements. The growth of large organizations with whom farmers must deal, contract farming, and vertical integration is making farmers and farm leaders think. This is all to the good. Farmers are beginning to see that they do not have to permit themselves to be integrated into someone else's business, and that they can build integrated organizations as well as others and keep for themselves the benefits of the integration. The Dairymen's League is a proof of this.

For several years I have been asserting that we need a major breakthrough in agricultural cooperation, built upon a more complete understanding of sound cooperative principles and practices. To some extent, we see it emerging. For example, observe the rapid growth in bargaining cooperatives, especially for fruits and vegetables and other commodities where this method of representing farmers holds promise; the merging of many cooperatives to gain efficiency and strength; the increasing demand among farmers and their leaders that cooperatives join forces and work together on coordinated programs; the intensification of steps in vertical and horizontal integration; the strengthening of our banks for cooperatives under a program which is making them farmer-owned and controlled; the greater recognition of sound principles of organization and operation, better management and better member and public relations; the increasing interest in director performance. All of these things are most encouraging, as is the increasing attention being given to cooperative business by farm journals, economists and farm organizations.

A beginning has been made but we must have more imaginative leadership of the type given us in the past by men like Judge Miller and Ed Babcock. the great organizer of your sister organization, which carries part of your name in its name--The Cooperative Grange League Federation Exchange. We must gain a vision of what a truly cooperative development of our agricultural industry would mean for both producers and consumers, and thus the nation.

As cooperatives gain strength and take over greater responsibilities in serving farmers, can we not anticipate a withdrawal of government from functions no longer needed and a more self-sufficient, self-contained, self-reliant agricultural industry?

I would like to close with a statement made by Assistant Secretary of Agriculture, Ervin L. Peterson, in a talk which he gave us in Farmer Cooperative Service last December: "The less that cooperatives effectively represent farmers' interests, the greater the government's interest in agriculture is likely to become."

To summarize, I have tried to make three points in this talk.

1. That farmers need cooperatives to help them work effectively with their government.

2. That the partnership of farmers and their government is logical and of long duration.

3. That farmers can strengthen their end of the partnership by building a more self-reliant agriculture through the use of cooperatives.

HOW COOPERATIVE MANAGEMENT CAN EVALUATE ITS OPERATIONS 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
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This subject is a big and very important one. Every cooperative is like an individual, and all individuals are different in some respects. In the dairy cooperative field alone--consider how many different kinds of cooperatives are represented. Some carry on limited functions. Some carry on very complex operations. Some operate in a small area. Some operate over several states. Moreover, dairy cooperatives are continuously changing as they adapt to a dynamic industry marked by keen competition.

It is not easy for a cooperative management to ask itself, "How am I doing?" and answer the question satisfactorily. It may think it is doing all right but it may not be alert to trends which are gradually making present methods obsolete and ineffective.

Intuitive Evaluation Is Not Enough

It is not a simple thing for a cooperative management to evaluate its operations. Evaluation must be a continuous soul-searching as well as a fact-finding process.

Farmer Cooperative Service recently completed a study of dairy products marketed by cooperatives. Our report on that study, "Integrated Dairy Operations Through Farmer Cooperatives," was rushed to completion so it could be available at this meeting. It shows what dairy products are marketed by cooperatives and how, and reveals the increased operating complexity of many dairy cooperatives.

While cooperatives remain typically small-scale, we found that a significant number have become large-scale manufacturing operations. In 1957 there were 19 that made over 5 million pounds of butter. Three made over 5 million pounds of cheddar cheese, and another three made over 5 million pounds of cottage cheese. There were 24 that made over 10 million pounds of nonfat dry milk.

1/ Talk for Management Workshop, Annual Convention of National Milk Producers Federation, Washington, D. C., November 18, 1959. Appreciation is expressed to members of Farmer Cooperative Service staff for their suggestions and criticisms.

Another measure of the management problem is the diversification of operations. One clue to diversification is the number of different products manufactured. We found 94 cooperatives that made four or more products in 1957. Another 265 made two or three products. As many of these processed or packaged fluid milk they were even further diversified. Efficient management for such large and diversified operations requires adequate and appropriate methods of evaluation. Simple, intuitive evaluation isn't good enough. 1/

Evaluation in the Food Chains

It's sometimes a good thing for us to take a little time out to see how things are done outside of the cooperative field. A few weeks ago I attended some of the sessions of the Annual Meeting of the National Association of Food Chains. One talk that made quite an impression on me was by Dr. C. Stewart Shepherd, Dean of the Graduate School of Business and Public Administration of Cornell University. He spoke on "Competition in Retailing." He pointed out how competition is growing keener, not only between goods, but also between sellers. He said that mass production methods are justified only on the basis of mass consumption resulting in increasingly large volumes of goods being brought to the market with relatively small profit margins. As a result, he held that each business firm has to improve its efficiency if it is to maintain and profitably increase its share of the market. I think he is striking home here.

Then he went on to say:

> "Business management has to make more and more difficult policy decisions in the areas of marketing, store or plant layout, materials handling, inventory control, quality control, labor relations, finance and administrative organization. The search for new or improved products, for better distribution channels and for nominal advertising media is, and must continue to be, unending. If the business firm is to keep pace with our growing economy, long-run projections must be made of the market place. Consideration has to be given to financial resources, the development of executive personnel, the degree of specialization or diversification, and a host of other problems."

Shepherd maintained that business management has become so specialized that, in the final analysis "competition between sellers is competition between managerial skills."

1/ Incidentally, Peter Drucker, in his well-known book, The Practice of Management, says: ". . . the days of the 'intuitive' managers are numbered."

I also found of interest a discussion of the subject, "How the Food Chains are Doing." It seems that the National Association of Food Chains has sponsored for fourteen years an annual report on Food Chain Operating Ratios. They give attention to many comparisons that we are interested in. For example, change in gross margins and expenses according to size of company. It was also illuminating to see the percentage of total dollar gross margins contributed by different product classes, and how this varied as between size of chains. They broke down a lot of other data which was of intense interest to me, and I am sure it would be to you, since in the National Milk Producers Federation you are endeavoring to do something along the same line in your cost-ratio survey.

Another talk dealt with the investment return approach to departmental analysis. The speaker said he thought that it would be "very revealing if each of us would establish a very tight control in these departments whereby we would know exactly what they are doing for us." One of the problems of the chain stores is to determine how far they will go in expanding general merchandise lines, as compared with groceries. This approach has application to cooperatives. I know of several making studies of return on investment for their various operations, purely as an internal check on their efficiency.

Self-Evaluation is Essential

A cooperative is always in competition with what it might be. Cooperative management must be continuously asking itself such questions as these: Will a campaign to sell more product reduce costs by increasing volume and lowering cost per unit? Will costs of new packaging be recovered in increased sales of product? Can we increase the services rendered by developing a more integrated organization and thus lower total costs? Every decision to buy equipment or build plants must be based on an evaluation of the future needs of the cooperative.

A cooperative may be efficient in what it does, but it may not be doing the right thing. Maybe a study of organizational structure would suggest cutting out some function or adding others. A cooperative can become so cost conscious that it may lose sight of sales opportunities. Costs must be measured in terms of what one gets for them. Many cooperatives have economized too much on equipment needed to enable them to render a better service to members and sustain the volume of business they now have. On the other hand, a cooperative must be just as careful to take costs into consideration when extending its operations or buying a new piece of equipment. It may prove an expensive luxury--not needed to accomplish the goals of the organization.

Cooperatives must constantly appraise their financial operations and financing costs to keep in a sound financial position at all times. The financial ratios are just as important as the operating ones.

Some Questions for Self-Evaluation

There are a number of questions that cooperative managements should constantly ask themselves. For example: (1) Are our services to members adequate? (2) Are our customers satisfied with the available services? (3) Are facilities adequate to do a good job? (4) Is the organization structure the best that can be developed to perform operations? (5) Do members understand how their cooperative works? (6) Are we working with other cooperatives to a maximum to reduce costs and increase sales volume? (7) Are we working constructively with the industry on matters of general industry importance? (8) Are our procurement and distribution methods up to date? (9) Could we reduce our transportation costs? (10) Are we getting the most out of the dollars we spend for labor? (11) Is the morale of our employees high? Are they enthusiastic backers of our cooperative? (12) Should we have a management training program?

These questions do not concern the manager alone. They concern equally the board of directors.

I think cooperative management might also ask itself: Do we have a smooth, well-run organization from a cooperative standpoint? Are members kept well-informed? Do they take an active interest in electing good directors? Do they support the organization with their patronage and financial resources?

Then, management should look to the board and ask whether it is really representing the members. Is it taking its functions seriously? Is the board working well with paid management? Is there smooth coordination all along the line?

The real question here is: How does a cooperative management evaluate its operations? Members are continuously evaluating cooperative managements along these lines. Do cooperative managers and directors give these problems enough self-analysis?

Do You Need a Check-up?

Many of us have an annual physical check-up to see if our bodies have deteriorated in the last year. This leads me to ask -- when did your co-op last have a check-up? That is, a careful study of all phases of its operations to see how they could be improved. It may be that your cooperative has taken on excessive weight or it may have become anemic without your knowing it.

The Farmer Cooperative Service has made many check-ups for cooperatives over a considerable period of years and seldom have we not found something that needs attention.

Sometimes cooperative management is too close to an organization to know how it is really functioning. It may take an outside observer, without personal interests or relationships, to see possibilities for improvement.

A study committee, made up of board members and management, can often do a good job, but this takes good leadership and full support of top management. The review job can oftentimes best be done by specialists that have had wide experience with more than one organization.

Many cooperatives now have comptrollers who are responsible for keeping a check over all operations. This is one of the advantages of a large organization. It can afford such specialists.

Moreover, we must always remember that accounting records may not immediately show up losses resulting from bad management. It may cover them up to some extent. And even if accounting records reveal bad management, will bad management undertake to correct the situation?

Tools for Management

If a cooperative is to be able to continuously evaluate its operations it must have accounting records that completely indicate how the business is functioning from month to month and from year to year -- we might say, even from day to day. Too much emphasis cannot be placed on having good records and a good accounting system if an organization is to be able to know currently where it stands. A simple set of accounting books is not enough. For example, a cooperative must have sales records to provide constant guidance to management in establishing sales policies. Cooperative management needs to know which methods of selling are most effective. It must know costs of selling under varying conditions. It must be able to assess the value of individual salesmen.

Cooperative management, in evaluating its operations, must always ask, "Is there something that we can do more efficiently? How can we reduce our costs?"

We need to know more about how volume of business affects costs and merchandising efficiency. If a cooperative is not large enough to be an efficient operating unit, it must either find some way to increase its size or die.

Cooperatives may reduce some costs and increase merchandising efficiency through performing certain functions jointly. More real cooperation between cooperatives would help protect the future of many cooperatives. In some cases, outright merger of cooperatives is the answer.

In evaluating operations we should look back on past records and have good records to review. Past records provide a basis for reviewing management experience. They disclose where an organization has made mistakes or made headway, and they disclose trends that are favorable or unfavorable.

Various ratios are highly important in guiding management in its operations, and these ratios should be developed for the particular needs of your business.

How Are Your Decisions Made?

How are decisions made in your cooperative? Are they made after careful study of the facts, or on the basis of predispositions? I think cooperatives should spend quite a little time evaluating their own decision-making procedures, for decision-making is involved in all phases of business operations.

Let's think for a minute in terms of total cooperative efficiency. Here we might develop a score card that would provide for checking up on your cooperative. We might ask such questions as this:

1. Is the cooperative well-managed?
2. Are members well-satisfied?
3. Are customers well served?
4. Are records well-kept?
5. Are directors a vital part of the organization?
6. Are we financially sound?
7. Are our methods up to date?
8. Are we cooperating with other cooperatives?
9. Is our organizational structure sound?
10. How effective are our membership and public relations programs?

If we develop a card like this and rank ourselves with a scale of values from 1 to 10, what would the score look like for our cooperative?

I think a little test like this is oftentimes helpful and can keep us from becoming too complacent.

With the permission of a general manager, I once tried a little experiment at a meeting of field representatives of a large regional cooperative. I passed out sheets of blank paper and asked the fieldmen to list the five best points about their co-op. I gave them five minutes to do this so that they would express themselves from the top of their minds.

Before I started, I made it clear that they were not to sign their names and that I would tear up the sheets afterward so that their handwriting couldn't be identified. Then I asked them to turn the paper over and list the five least favorable points about their cooperative. As no one signed his name, none was inhibited.

The results when combined gave a pretty good indication of the good and weak points of the cooperative, and it was a very good cooperative to begin with. It reduced the complacency of the management and pointed out several places where steps could be taken to improve operations.

One thing that came out of this little exercise was the fact that the fieldmen were closer to certain problems than management because they were meeting them constantly in the field.

One of the problems of cooperative management is to keep alert to the possibilities of improvement. There is always a tendency for management to defend the status quo. I do not consider this wholly a weakness of management unless it is carried too far. Management must continuously defend the organization as it is until something better is developed.

One way of carrying on a continuous evaluation of your operations is to have a good employee suggestion system. There are many good ideas in an organization that people are hesitant to express unless they are encouraged by management to express them. We have made good use of the suggestion system in the Department of Agriculture in recent years. We have picked up many ideas that have helped us improve the efficiency of our operations and, incidentally, it has given employees a greater sense of participation in management, which is all to the good.

However, I am not in favor of the brainstorming technique where everybody in an organization tries to tell the management in charge how to operate. The brainstorming technique has its place if used with discretion, but it performs a minor role in good management.

Research Is Essential For Modern Management

Too few cooperative managements realize how research could help them in doing a better job in evaluating their operations. Only a handful of cooperatives have research departments constantly at work trying to help the organization improve itself. There are still many cooperative managers who haven't learned how to use research. They are afraid of it. They don't recognize it as a business tool. Their neglect of research puts them at a great handicap in competition with concerns which have alert research departments.

I frankly feel that the future of cooperatives will depend upon their learning how to use research, and I mean by this -- marketing research and organization research, as well as product research. Research is an essential device for helping an organization come to sound decisions.

This leads me to say a word about budgets, for here is another tool that I feel has not been adequately used by cooperatives to help them evaluate their operations. A budget is a forecast of how an organization intends to function in the following fiscal period. Preparation of the budget calls for careful review of past and present operations to determine how they will be changed the following year. Budgets are part of the process of planning, for a budget is a plan. I know that many cooperative organizations have budgets, but my observations lead me to think that budget-making is not a highly developed art in cooperative organizations, and that many cooperative managements would be able to better plan their operations if they had better budgets.

Your Cost-ratio Survey is a Forward Step

The National Milk Producers Federation can take great pride in the work that it is doing to encourage its member cooperatives to tighten up on their operations through evaluation of their performance. Its cost-ratio survey is stimulating real interest in this question. From this survey a lot of experience is being gained and the methods of the survey itself are being greatly improved. This survey is a step in the right direction and is bound to result in the development of more standard procedures among the cooperatives that make use of it.

Farmer Cooperative Service has just prepared a uniform accounting system for frozen food locker plants, and it may offer some suggestions to dairy cooperatives interested in developing a standard accounting system.

The cost-ratio survey recognizes the need of dairy cooperatives for a better basis of comparative analyses. It places emphasis on business performance in terms of sales efficiency. It is a tool that an individual cooperative manager can use to help him evaluate his operations. If he can determine from looking at records for other associations that his association is weak in some respect and if this stimulates him to take action to improve his own position, it will render an invaluable service.

The main weakness of all cost surveys of this type is that they must be broad and general rather than specific. Only a study of an individual organization will indicate where it is inefficient. The cost-ratio survey will, however, certainly stimulate the manager and board to find the right answers.

A major difficulty in the cost-ratio survey for dairy cooperatives is that even though it is broken down by categories or types of operation, the units in each group are far from homogeneous. They are of varying size, perform different functions, and operate under unlike conditions and in different territories. This leads to the conclusion that, in addition to the cost-ratio survey, research should be carried on to bring out the economic factors that explain the costs and thus get to the underlying situation. Of course, this is a later step, and the Federation will, I think, come to this in due time.

In Farmer Cooperative Service, we have made a number of studies of cooperatives of the same general type and one of our conclusions is that these organizations could do a great deal to improve and put their accounting records on a standard basis so that they could better compare their operations with each other.

We have found that many cooperatives have greatly improved their efficiency through knowing more about other cooperatives of the same type. When they look over another organization they are really evaluating their own organization because they are constantly asking themselves: "Are we doing this job better?"

Conferences between dairy cooperatives or other cooperatives in which attention is given to the efficiency of various and detailed operations are of great help in stimulating management to adopt new ideas and to see how their own operations can be improved. In fact, cooperatives can do a lot to better appraise their operations simply by giving more attention to the problem and attaching to it the importance it deserves.

Many business firms are now examining the adaptability of data processing to their operations. They are finding that new equipment is making possible the provision of much more accurate information on many subjects. It is a valuable tool for control and it is a valuable tool for research. I wonder whether cooperatives are giving the subject the attention it deserves as a means of helping them keep up to date in appraising their operations.

Productivity studies are also worth consideration as a means of seeing how performance can be improved. I know of one large organization that benefited greatly by having an industrial engineering firm study the efficiency of its manufacturing operations.

Cost Analysis Plus Internal Research

Another field of inquiry that cooperatives can explore to a greater extent is cost analysis. Costs are not always what they seem.

I recently heard a comptroller of a large cooperative say that its operations were so unique that it could not compare costs on any comparable basis with other cooperatives. It would be difficult to compare its costs for, say, advertising or member relations with another organization because these functions are performed in a different way, and recorded differently in accounting records. Yet there are certain ways to determine whether an organization is moving ahead as compared to others. Benefits provided to its members and its financial standing are of course measures of such progress.

Although some dairy cooperatives are highly diversified, most of you are most interested in increasing efficiency in procurement, processing and sales. Most large cooperative organizations have these departments, and all have at least two of them. Few cooperatives, however, have departments for market analysis, facilities engineering, and operations engineering, or one research department concerned with all of these responsibilities. I think as time goes on, departments of this type are going to be found essential to help in the basic functions of procurement, processing, and selling.

Take, for example, the field of gathering product -- procurement. Most cooperatives need to achieve greater control over their assembling routes. Their pickup schedules may be affecting processing costs and labor use; the problem of adopting new equipment, such as bulk tanks, is related to assembling costs.

There are many things that a research analysis department can do to help improve processing efficiency. It can make efficiency studies; it can make an analysis of organization and communication within the cooperative; it can help determine the best products or operations. In many cases studies can reduce inefficiency by helping management determine the long-range operating goals of the association and who is to carry out these goals. Responsibility must be pin-pointed for certain areas of production and cost.

Operation studies can reduce inefficiencies by setting labor standards for certain activities and keeping actual costs near these standards. By determining standards for utilities costs these costs can often be reduced. Finding methods of improving present operations can give better organization and management. All operating inputs are a fertile field for study -- their improvement can reduce costs. What sort of analytical machinery does your organization have to make such studies?

Some of the things that I have talked about do not necessitate a research department. The important question is how can the research job be best done? Should it be done by the manager? the controller? or by a specialist?

As organizations grow, through coordination, merger and integration, there is need to carefully study the new form of organization to see that it is made into a workable economic unit. Cost records are essential in determining departmental costs. It is also necessary to be able to differentiate between fixed and variable expenses. The determination of what plants to use or how many depends upon costs. Farmer Cooperative Service is planning a project to help on this general problem.

We are finding increasingly that milk must be merchandised efficiently to compete with other foods. The battle for the food shelf is not one that can be taken for granted by dairy farmers. Merchandising is a process of preparing products for market, supplying customers with dairy products where and how they want them, and assisting wholesale and retail handlers to sell more milk. The following questions require continuous study: 1. How do alternative methods of selling affect consumption? 2. What are the costs and returns of these alternative methods?

To merchandise efficiently a cooperative must make good use of advertising; it must maintain a high level of operating efficiency on routes; it must provide customers with products made to their specifications, particularly manufactured products; it must have effective channels of merchandising. There is a close relationship also between merchandising and public relations. If you are careless about public relations, no amount of good advertising is going to get through.

Economic analysis can help locate areas of inefficiency but to be able to analyze operations you must have a foundation of records which will provide a basis for comparison, both internally and with the components of the industry.

The main points I have made in this talk are:

1. Evaluation of your operations is essential to survival.

2. Evaluation is a continuing search for improvement.

3. Evaluation calls for good records and competent analysis.

DEVELOPING FARMER BARGAINING POWER THROUGH MARKETING COOPERATIVES 1/

By Joseph G. Knapp, Administrator
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For the purpose of this talk I am defining "farmer bargaining power through marketing cooperatives" as the capacity or ability of a farmer cooperative to administer given quantities of an agricultural commodity so as to obtain for its members the maximum return possible under prevailing conditions of demand and supply.

This definition takes the market situation at a given time for granted. It places emphasis on the question of "How can farmer cooperatives strengthen their position in the market as it exists?" It is also assumed that we are dealing with voluntary cooperatives, with no ability to control their members except through self-imposed regulations and rules.

An organization of any kind has bargaining power when it is large enough to represent a sufficient amount of demand or supply to be a factor in the market. If it is large enough to obtain any advantage for its members it has bargaining power.

The concept of bargaining power does not imply complete control over supply. This would yield bargaining power in extreme form and give monopoly power. We are here concerned only with the question of how cooperatives can obtain more bargaining power for the limited supplies they can control.

While much experience has demonstrated that cooperatives cannot control total production or supply, much experience has also demonstrated that they can market to advantage what they can control. They can be market leaders. They can help administer supply or regulate its flow to the market. They can divert supplies to other markets and thus take advantage of the best prices available. They can even influence the amount or quality of a product going to market even if they can't control its total supply. Bargaining power emphasizes the obtainable rather than the ultimate in benefits.

1/ Talk for Annual Meeting of the National Council of Farmer Cooperatives, January 5, 1960, at Atlanta, Georgia. Appreciation is expressed to my colleagues Wendell McMillan, Job K. Savage, and Kelsey B. Gardner for suggestions and helpful criticisms.

A basic source of bargaining power for farmers is the joint sale of their farm products through their marketing cooperatives. By marketing their products as a group rather than as individuals, farmers not only can become more important factors in the market, but also they can supply better the needs of the market. Both conditions, namely, large-scale operations and meeting the needs of the market, develop bargaining power for the farmer.

Thus, farmers can more fully develop the bargaining power of their marketing cooperatives by concentrating their efforts in two related areas: (1) Improving the overall efficiency of their operations, and (2) Adjusting their operations to continually changing market conditions.

What are some of the ways marketing cooperatives can improve efficiency and adjust supplies to market needs so as to further develop their bargaining power? Before mentioning some of these methods let us consider an element that is essential to sound, healthy cooperative growth.

We have all heard the statement "Knowledge is power." Let me paraphrase this to "Marketing knowledge is bargaining power." I emphasize this point since management must have information if it is to adjust operations and improve efficiency in a rational manner -- namely -- in a manner that is required by a fast moving, mass merchandising market.

Management -- directors, managers and staff -- need to keep continually informed on technological developments in their commodities and on day to day changes in the market. But even more important, they must take the time and use the resources necessary to "research out" information on long-run trends and changes in the marketing of their commodities, on competing commodities, and on the economy in general.

Without this type of market research information rational policies and decisions cannot be made on how to adjust operations and how to improve efficiency. In other words, bargaining power cannot be fully developed without knowledge and information.

Cooperatives can obtain much of the required information themselves, but often outside help -- such as that of market research organizations, the Extension Service, the State Departments of Agriculture, the Agricultural Marketing Service, and the Farmer Cooperative Service -- can contribute by providing useful information.

Now let us look at some of the ways marketing cooperatives can adjust supplies to market needs -- and thus more fully develop their bargaining power in the market. A variety of methods may be useful.

An inspection of our mass distribution system of food marketing reveals the needs of buyers -- the cooperatives' customers -- and suggests ways cooperatives can meet these needs. Mass distribution calls for, and requires, large volumes of products of uniform quality, and in continuous supply. In other words, buying must be done on the basis of specifications.

To some extent cooperatives can meet these requirements by adjusting their pooling and other grower payment methods. For example, by properly adjusting premiums to the quality demanded by buyers, the payments received by grower-members can help influence growers' production plans and practices in line with market needs. Adjusting the length and number of pooling periods can contribute to a better flow of products from farm to consumer. Of course, quality control -- from the production level through the various marketing processes -- is a basic method by which cooperatives can help tailor market supply to market demand.

Greater attention to the use of contracts between the grower and his cooperative is another method by which cooperatives can adjust the supply of members' products to the market, namely, in the quantity, of the quality, and at the time demanded by the market. Strong membership contracts can give the management of cooperatives the strength and flexibility needed to more fully develop the bargaining power that lies in the joint sale of members' products. Along with contracts, membership education in their use is vital for maximum development.

Continued growth in the size of cooperatives also develops bargaining power. This growth can be horizontal -- adding more member-growers -- or vertical -- furnishing more services and marketing functions. Growth in size and functions are both necessary -- to provide larger supplies to administer and to help members operate their farms with low cost and high efficiency. Of course, efficient management is an essential ingredient for the overall improvement of cooperative effectiveness and especially in achieving influence on the market.

We said earlier that "Marketing knowledge is bargaining power." To be true, this statement must imply action or use of knowledge. Only knowledge with action can give bargaining power. One of the areas where action is needed lies in developing cooperation among cooperatives themselves. Many individual cooperatives already have a considerable degree of knowledge, resources and facilities. But to go further in an expanding economy there must be more cooperation among cooperatives in uniting such knowledge, resources and facilities. Just as joint action by individual farmers brings them bargaining power, joint action among cooperatives can more fully develop their latent but potential bargaining power.

The Search for Bargaining Power -- Not a New Problem

Farmers have long had a problem of bargaining power. G. Harold Powell recognized this in his book, Cooperation and Agriculture, published in 1913. Powell said: "When the farmer stands by himself in dealing with all of the agencies of distribution, he is at a distinct disadvantage in bargaining and in protecting himself from aggression."

I wonder how many of you saw the notice of Aaron Sapiro's death in the newspapers a few weeks ago. Many of us who remember the Sapiro wave or who were caught up in it can not overlook the importance of this man. Much has happened since those dramatic days and today it is somewhat the custom to minimize Aaron Sapiro's contribution to the development of cooperative enterprise. Like some of the early aviation enthusiasts, he had a good idea but he could not make it work. It took the Wright brothers to get a powered plane off the ground, but they built on the experiments of Lilienthal, Chanute, and Langley.

Sapiro, however, did something of great importance. He dramatized the farmer's plight. He gave farmers the conception of doing things in a big way. Some of his economic thinking was naive, but his heart was in the right place. He was trying to develop equality for agriculture compared with other industires. He himself, came to realize that his plans for monopoly control were impractical, but unfortunately few have read the views he expressed at the American Institute of Cooperation in 1926, which were far different from those that he espoused in 1922.

What was the essence of Sapiro's philosophy? He advocated orderly marketing, merchandising, use of subsidiary corporations, organization by commodity, firm contracts to establish relations of members to their organizations. Some of these ideas are as vital today as they were then. He stressed, increasingly, as he became aware of the lack of it, the importance of membership education.

Many, in my opinion, have misinterpreted Sapiro's position. It was an experiment and should be looked upon as an experiment, and lessons were learned from it. A great many people assume that his ideas were tried out and proved erroneous. This is not quite accurate. Probably no man has made more of a mark on the character of American agriculture and the agriculture of the world during the last forty years.

I look upon the early wheat pools and similar commodity enterprises, sponsored by Sapiro, as stepping stones rather than failures in the search for bargaining power. Many of the ideas that we consider practical today were espoused by Sapiro. If you go back and read some of Sapiro's statements they may strike you as more reasonable than what he is supposed to have said.

In the early 1920's Sapiro popularized the concept, "orderly marketing". You might be interested in how he expressed his thinking on this subject in 1924:

> "Price value is determined not by supply and demand but by supply where, and supply when, and the men who can control the flow of a commodity so that it moves into the markets of the world in given quantities at such a time and such a place, these men determine the price value of any commodity under the sun."

Although he espoused 100 percent control of supply if possible, Sapiro was willing to settle for less. He said:

> "You can do a hundred percent of good with a cooperative marketing association organized on ideal lines. You may only be able to do thirty percent of good if you organize without ideal lines. The percentage of good that you may do has a very wide range."

Sapiro was not concerned about the problem of general over-production so much as with the amount of production reaching the markets, and we must remember that at that time the problem of chronic surplus had not become acute. On this he said:

> "Every merchant in the world has learned the fact that it is not what is produced that makes the selling value. It is what is moved into the markets where he can get it and under conditions fixed by him; in short, that it is not the supply that fixes the price, it is the control of the movement of the article."

At the American Institute of Cooperation in 1928, Merton L. Corey who is here with us today gave a talk on "Market Control vs. Sound Business Management." He said:

> "Market control makes the problem of business success easier. Market control is desirable. It will come in any given commodity when the management proves its capacity to handle the problem wisely, but after all, business management is the foundation on which the cooperatives must build."

Later in this talk he said:

> "Market control, within proper bounds, and for legitimate purposes, will be acquired by many groups of agricultural producers. The control will come, not through legislation nor even through individual contracts. It will come through such outstanding records of business performance as will assure permanence of the initial signup and attract non-member producers upon the basis of results achieved."

This is sound doctrine.

At that same Institute, Dr. E. G. Nourse spoke on the "Evolving Idea of Cooperation in the United States." He stressed the need of "stabilizing the market vs. stabilizing the industry," and he came to the conclusion that "You cannot throw the whole job on a mere marketing association. It must eventually become a cooperative organization of agriculture, not merely cooperative marketing." He also said, "I think the cooperatives have too often taken the easy way to get a temporary commercial success instead of taking the stricter view of cooperation as a means of a lasting organization of the industry."

A few weeks after the Federal Farm Board was set up in 1929, Alexander Legge, the first chairman, spoke to the American Institute of Cooperation, at Baton Rouge. You will remember that Legge had been President of the International Harvester Corporation. He asked this question:

> "Why is agriculture as an industry not keeping pace with other industries in the general progress of the country? In my judgment, the answer can be stated briefly. Agriculture has operated as an individual enterprise, competing with organized effort in other industries. The marked tendency in other industries is toward larger groups in which many minds collectively determine policies and plans and follow them through."

He also said:

> "Markets, after all, are made to a considerable extent by the process of bargaining. The prestige of any trader in the market depends largely on the volume of business which he has to transact, whether he be a seller or a buyer. If we carry this a little further -- say that 100,000 farmers centralize the marketing of their products in the same way, such an agency at once becomes a leading factor entitled as it should be to a voice in establishing the rules and regulations and conditions under which its production is disposed of."

In 1930, Dr. Nourse gave a talk at the American Institute of Cooperation, entitled: "What can the Farm Board do toward production control?" He held that possibilities of production control depended upon the area and commodity. He pointed out that they ranged all the way from the demonstrably possible to the largely impossible. He grouped situations under three headings:

1. Those in which cooperatives had already shown that a reasonable degree of control might be achieved and made to operate to the benefit of the producer. Here he was referring to specialty crops grown under somewhat unique conditions.

2. At the opposite pole, he dealt with those situations in which no effective control had been secured even though repeated efforts had been made and in which the situation seemed apparently to preclude control. Here he was referring to the problems of such commodities as wheat, cotton and tobacco. In all of them potential producing land was enormously greater than that in actual use.

3. His third category represented "branches of the agricultural industry whose condition is such as to hold out some promise of achieving a measure of group action sufficiently extensive to produce significant economic results." Here he used illustrations from the milk and livestock industries.

For the next few years the Farm Board valiantly endeavored to build large centralized cooperatives for grain, livestock, cotton, and fruits and vegetables. Through stabilization corporation operations it endeavored to keep prices from falling, but at best this was only a delaying action. As time went on, the Farm Board came to recognize that one of its problems was inability to control production.

The subject of production control was of great interest in 1931 and particularly in 1932. In 1932, the American Institute of Cooperation set up a round-table on production control. This round-table recognized the problem but its conclusions were inconclusive. The last paragraph of its report, submitted by Dr. John D. Black, as Chairman, had this sentence: "Control of the longtime trends of production through wise, rational credit policy and land policy is worthy of careful study and intelligent application. The results that may arise from various allotment plans are problematical but such plans may possess limited usefulness." Dr. Black also gave his own views on production control at this Institute. He came to the opinion that "cooperative organizations have important social values that warrant permitting them a very moderate exercise of monopoly power." He was not averse to giving them an opportunity to try to control production but he was not very optimistic as to what could be accomplished by voluntary organization.

When the American Institute of Cooperation met in Raleigh in 1933, the Agricultural Adjustment Act had just been passed. This was at the time when the little pigs were killed off and every third row of cotton was plowed up. Chester C. Davis, Administrator of the Agricultural Adjustment Administration, gave a talk on "Production Control Policies and Mechanisms in the Agricultural Adjustment Act." Davis said:

> "The objects of the cooperative movement should be much more simple, logical and attainable when the Agricultural Adjustment Act gets into full operation. It should then be possible, for the first time, for cooperatives to promise only what they can perform. They will no longer be dragged inescapably into operations which economic science and their own good judgment condemn in advance. With production adjusted, they will not have to store surpluses for unreasonable periods in order to prevent loss on the acquired supply of farm products. They will not be driven to act as if the control of a small part of a given crop could regulate the price of the whole. Under ideal conditions they will not have to bother any longer about the unorganized outsider. Whether he comes in or stays out will affect only the scale and not the kind of the cooperative's activities. These things I say will be true unless and until farmers are organized on a larger scale than now."

John D. Black, in commenting on the paper by Davis, indicated that the whole subject of production control had changed so much during the last year that it was like looking at the moving picture, then current -- The Lost World.

At this same Institute, Dr. Nourse said that production control was no part of the older cooperative movement. He was somewhat uncertain as to whether the government control of production would work to the advantage or disadvantage of cooperatives. At least, he felt that cooperatives should do everything possible to strengthen their operating organizations.

The problem of production control took a back seat in cooperative circles during the war and postwar periods. During this time the cooperatives placed emphasis on business efficiency and made great progress with the financing assistance of the Banks for Cooperatives of the Farm Credit Administration.

In recent years, however, as supplies have become overwhelming, the problem of production control has again come to the front, and many are again looking to the cooperatives to undertake the control job.

Although cooperatives have grown a great deal in the last twenty years, it is doubtful whether they could take on this responsibility and remain voluntary cooperatives.

Several years ago J. Kenneth Galbraith developed the concept of countervailing power in his well-known book, American Capitalism. In this he took the position that marketing cooperatives by their very nature could not assume the job of total production control. He held therefore that they could not, as voluntary organizations, develop countervailing power.

However, it seems to me that Galbraith did not adequately recognize the partial and significant gains in bargaining power that cooperatives can obtain. They may not be able to dictate prices for agricultural commodities on the world market but they can help farmers get the maximum amount possible under prevailing conditions for the products that they sell in any given market. They can certainly help the individual farmer get more through bargaining power than he would otherwise obtain.

It is significant that cooperative farm supply purchasing has come into the picture and given support to cooperative marketing enterprises. This has created stronger, more integrated cooperative organizations.

Some cooperative marketing organizations have been somewhat envious of cooperative purchasing organizations because of the progress made by the latter in recent years. It seems to me that they should be happy over this achievement for it has brought strength to the concept of agricultural cooperation and widened the interest of farmers in cooperation. It attacks the problem of marketing power from the other end by helping farmers cut costs through getting supplies at lower cost. It has helped build up funds that could be used in strengthening other cooperative enterprises. It has made members more receptive to cooperation. It has demonstrated that cooperation pays.

I am sure that all of you will agree that strong cooperatives can administer supplies on markets to best effect. As cooperatives gain in strength they can help assemble the kind of supplies that chain stores and other mass buyers desire. If cooperatives can become the buying agents for large mass consumers they can in a way act as brokers between producers and ultimate consumers and get for the producer the highest possible price and also at the same time get for the consumer the product which he wants at the lowest possible cost.

As Carroll Streeter said a year ago at the American Institute of Cooperation at Penn State, "For the average farmer to try to cope single-handedly with the complexities of the present-day market is about like asking David to meet Goliath without a slingshot."

Attainable Bargaining Power

My concern in this talk is to urge cooperatives to do everything they can to strengthen themselves so as to have a greater bargaining power in the market, but at the same time I think that they will be wisely advised to not undertake more than they are reasonably capable of handling. I don't think that they are singlehandedly more able to control total supply in agriculture than they were thirty years ago. In fact, it seems apparent that the problem of total supply control becomes even more difficult as the agricultural revolution increases the productivity of American farms.

However, we should bear in mind that the character of cooperation today is far different from what it was in the 1920's or even in the 1930's. Most people forget that the cooperative structure today cannot be compared with that of 30 years ago. Since then we have developed many strong business cooperative organizations, using the very best kinds of business management. We have developed regional organizations and federations of organizations. There are few small independent cooperatives today, whereas in the twenties practically all cooperatives were small and independent. Now we have cooperative systems instead of scattered individual cooperatives. Thus, when we consider the question of bargaining power of cooperatives we must realize that we have now many strong cooperatives which have a considerable amount of bargaining power.

We also should take into account the changes in the market structure. We must realize that the firms with which farmers deal are much stronger and more powerful than they were twenty or thirty years ago. Take, for example, the chain stores. In the 1920's they were just coming into prominence. Now they dominate the markets for food and they require that products be prepared to meet their specifications. We didn't know what the battle for the shelf-space was until ten or fifteen years ago. If strong cooperatives were needed to cope with organized buyers in the past, the need is even greater today.

Professor Willard F. Mueller, of the University of Wisconsin, has recently called attention to the increased concentration in food retailing. However, he does not take the position that the food industry is not competitive. He sees the situation as still somewhat fluid and comes to the conclusion that in this situation farmer cooperatives are a bargaining tool of immense potential.

One thing we can be sure of -- that large, strong cooperative organizations are going to be more essential to protect farmers' interests in the future than they have been in the past. The problems of dealing with large-scale buying firms call for strong business organizations. It is here significant that farmer cooperatives can provide a means of supplying the kind and quality of product demanded by the market. Supply in agriculture is made up of various products and qualities of products. There are certain qualities of wheat, livestock, and other products that demand premiums. A cooperative that can develop a quality product can exert real power in the market.

In recent years cooperative bargaining associations have grown in popularity as a means of giving farmers a better competitive position in dealing with large processing firms. These associations differ from other marketing cooperatives in that they largely limit their operations to bargaining. In many instances these associations take on other responsibilities as they establish themselves.

There has been another development during the past twenty years of great significance to farmer bargaining power -- one that has emphasized the importance of cooperative organization. I refer to marketing orders and agreements, particularly those used for dairy products and fruits and vegetables. Through this method of joint action, supplies in many cases have been better adjusted to market needs. Federal milk orders have become accepted as essential tools for marketing stabilization. The significant point for this discussion, is that these regulatory devices do not supplant cooperative organizations -- but depend upon them. In most cases farmers have used cooperatives as an organized way of expressing their viewpoints -- both as to the formation and as to the operation -- of these orders and agreements.

How do cooperative marketing associations develop farmer bargaining power? The answer is not difficult for experience is abundant. We have watched many organizations develop bargaining power in a very effective way by the application of tested procedures of good management. Their experience is an open book to us. I refer to Sunkist Growers, and Land O'Lakes Creameries as outstanding examples.

One would think that with all the progress that has been made in cooperation through solid growth we would emphasize further efforts along this same line. However, there is a streak in human nature that causes us to turn to short cuts -- to magical formulas -- to want to get things without working for them, and it seldom pays.

What is restricting the bargaining power of cooperatives? I think some of the answers are lack of planning, lack of research, lack of good membership educational work, weak boards of directors, ineffective managers.

If we look at the history of American enterprise we find that concerns like Ford and Westinghouse grew largely from internal strength. This is true of the great majority of large businesses. Their growth was not given to them.

We might also ask this question. How do cooperatives not develop bargaining power? If we look at the question from the negative side it may help us understand what must be done. To accentuate the negative approach I suggest that cooperatives might follow this route:

1. Do nothing. Let things slide.

2. Be contemptuous of research and planning.

3. Blame your troubles on others, on competitors, on the economic situation, on the government. You can find plenty of scapegoats.

4. Take the position that someone ought to pass a law to help you out.

5. Consider management training, personnel development, budgeting, as something for the birds.

6. Don't bother to work with others. Remember that what you can't do yourself is not worth doing.

7. Provide your board members, and members with a minimum amount of information. That will help dry your organization up, if nothing else will.

8. Pay out all your savings in patronage refunds, and don't bother to build up any reserves. Let someone else worry about a rainy day.

9. Don't concern yourself about membership educational work. The members will take care of themselves and membership programs cost money.

10. Be sure to get directors who don't direct.

If cooperatives follow the above "principles" you can be sure that they won't develop much bargaining power. In fact, you can be sure that they will go down the drain, and probably rather fast at that.

Now when you bring these negative suggestions together it is quite apparent that it would be ridiculous for cooperatives to follow them. Yet, it is surprising how many cooperatives are vulnerable in actual practice. They complain about not having bargaining power but they don't do everything that they can to help themselves. A strong organization, like a strong individual, is bound to have influence, and influence is bargaining power.

NOW IS THE TIME FOR FARMER COOPERATIVES TO STAND UP AND BE COUNTED 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I am tremendously thrilled by this meeting so far. It seems to me that we are making progress in learning how to communicate with each other.

The topic given me is somewhat ambiguous because it assumes that a cooperative is a personal thing. When we say "Now is the time for farmer cooperatives to stand up and be counted," I think we mean "Now is the time for those who are deeply interested in cooperatives to stand up and be counted"--members, directors, managers and well-wishers. At any rate, that is the way I am going to interpret the subject.

Moreover, I might as well admit that I am going to talk with you informally and say whatever comes into my mind. Of course I have a few notes and various props.

The other day I picked up the following proverb in a Washington taxi: "A wise man can learn from a fool. A fool can learn from no one." I don't know what application it has for us here today but it does relate to the process of communication. We have heard many wise men here in the last two days, and of course we haven't any fools with us.

This morning I was asked this question: "Are farmers more or less interested in farmer cooperatives now than in the past?" This is a good question and one hard to answer. I will give you my answer in these somewhat equivocal words: "Interest in cooperatives today is very keen and the potential interest is great."

1/ Comments at Midwest Member Relations Conference, Omaha, Nebraska, May 5, 1960.

We have heard quite a little discussion today about the good old days of cooperation. Well, I can go back quite a way in my experience of working with cooperatives. I remember many of the great cooperative leaders of the 1920's, and I salute their memory. However, at the time they didn't seem so great as they do in retrospect, and I am of the opinion that we have at present more well-informed and capable people interested in cooperatives than we have ever had before. Perhaps we have less emotion among cooperative leaders but we have less emotion for things generally than we had 30 years ago. I would express this as follows: Interest in cooperatives is very great, but it is too often latent. It needs to be aroused. People are not interested in ideas or commodities until they are brought to their attention, and ideas as well as commodities have to be sold.

Ken Stern gave us a sobering talk today, but it was not all sobering. He saw some constructive developments in the wind. You will remember that he said the climate is not what it used to be. Well, this is true, but nothing else is either. The important thing is that we help make the climate for ideas and that is what you people here are concerned with--gaining acceptance for what you believe in.

I believe that cooperative leaders must shift from the <u>defensive</u> to the <u>offensive</u>. It is my experience that people generally like to be on the offensive--that they like to be for something. While I admit that a few also like to be against something, the only way to build a favorable understanding for an idea is to be for it.

In the confusion of the times the farmer cooperative is something that we can tie to. It is significant that all farm organizations are generally in favor of cooperatives no matter how much they disagree on agricultural matters. Could one imagine a free independent type of agriculture without cooperatives as we know them?

To gain standing for cooperatives one must identify them with the future of farming and our country, too.

We often only see our own cooperatives and we don't see how big the idea of cooperative business is. We may get discouraged by local circumstances and not see the big picture. I am reminded of a little talk that I heard Senator Aiken give the other day. He indicated that when he couldn't see any progress in what he was doing, he found the antidote in looking back over his shoulder for about thirty years. That gave him enough time to see what progress had really been made.

When we look back for only ten years we can see enormous progress. The banks for cooperatives have become in fact cooperative institutions. The net worth of cooperatives has greatly increased. They have greatly improved their management capacity. Boards of directors have become more responsible. Mergers have brought about stronger cooperative organizations. In many instances cooperatives have found that they can work together although it is generally claimed that this can't be done.

Just think for a minute of how potent a force is represented by all of the farmer cooperatives in the United States. There are 7-1/2 million memberships in farmers' marketing and purchasing associations, and three out of five farmers belong to organizations of this type. When we take into account rural electric cooperatives, credit cooperatives, insurance cooperatives, irrigation cooperatives and so forth, we find that the total number of memberships in all types of cooperatives runs to about 20,000,000, and it's very hard to find a farmer who doesn't belong to at least some kind of cooperative organization. So let's not get the idea that cooperation is an unpopular kind of thing. Just think of the strength of all of the cooperatives in the United States and the influence they have. Think also of the importance of cooperatives in all parts of the world--in India, in Africa, in South America, in Canada, in Japan, and in Europe. Cooperation is a worldwide form of business organization used by farmers. Let's keep the big picture in mind and not be overwhelmed by local difficulties.

"Now is the time for farmer cooperatives to stand up and be counted." That is my point of view, expressed in the title of this talk. However, I would add, "It is always the time for farmers and their cooperatives to stand up and be counted." It's always important to put your best foot forward. There is nothing more important any time than enthusiasm based on belief. It's necessary for selling anything. It's necessary in getting anything accepted or accomplished.

I remember an essay contest that was sponsored by one of the large corporations a number of years ago in which the topic was given "Why I like working for this concern." All the essays were put into a book and they made very interesting reading. I would like to see more questions of this kind made subjects of essay contests in America. "Why I like my co-op." If that doesn't appeal let me suggest this topic, "Why I don't like my co-op."

Then there is also this question to consider. Assuming that cooperatives should speak up, where should they speak up? My answer here is very general. I would say--in churches--in community organizations of all kinds--in colleges--in newspapers--wherever necessary. Now I don't mean to insinuate that a person should make himself obnoxious going around advocating cooperatives. My meaning here is that a person interested in cooperatives should see that cooperatives are fairly represented. He should stand up for them when they are under attack. He should help educate people who have a misunderstanding of them.

Many times when you hear attacks made on cooperatives you don't need to get into an argument. All you need to do is to ask this question, "Where did you get your information?" You will generally find that the person who is spouting off really doesn't know much about cooperation and this may give you an opportunity to improve his sphere of knowledge. Try it some time. I have found that it works surprisingly well.

A year or so ago I gave a talk at a Civitan Club in a large city on "Cooperatives and American Business." I tried to explain how cooperatives work and endeavored to correct certain misconceptions regarding cooperatives. I felt that I was speaking in a somewhat hostile environment because it was not a farm group and there were many people in the city who were opposed to cooperatives. However, I was greatly pleased to have a number of people come up after my talk and indicate that they were glad to get my slant--that they had never really understood cooperation and that this was of help to them. It gave them a different point of view.

We must penetrate a fog of misunderstanding and to do that we must tell a constructive story. Two weeks ago public relations representatives of the Cooperative League met in Washington and reported on a study that had been made for them on cooperative publications and advertising. The agency that made the study came to the conclusion that the publicity job being done by cooperatives with cooperative members was far from good. Not enough cooperatives are really telling a constructive story. They are so concerned with defending themselves that they are not thinking of their inherent assets

This suggests another thing to me. If you are going to stand up and be counted you must help make cooperatives as good as they should be. Their facilities should be cleaned up, spruced up, painted up, identified. Cooperative members should be proud of the facilities that serve them. We are getting away from the idea that a farmer doesn't like things as good as anyone else.

We need also more use of cooperative films. Most cooperative films are used almost exclusively by the cooperative that makes them. As a result, they are perhaps overused at home, but not given other use. I think we might get around that by having some sort of an interchange system where cooperatives could trade films. This would tend to widen cooperative horizons. The members of a cooperative in New England, for example, would find of considerable interest a cooperative film coming from California and vice versa.

Have we done enough to broaden our cooperative horizons?

We have had a discussion today of institutional advertising. Now what do we mean by the term "institution" in institutional advertising? Here we get into the question of semantics. Various people will immediately think of different kinds of institutions. Are we talking about the cooperative idea or the cooperative buildings, one cooperative--or what? I think too frequently we think of institutional advertising as related to the promotion of one company or one institution, if you please. What we need may be a little different concept, and perhaps a different term to convey what we have in mind by institutional advertising. The English use a term which conveys the idea of good-will advertising. They call it "prestige advertising." I wonder if we wouldn't do better if we thought of good-will or prestige advertising rather than institutional advertising, especially when we are thinking of getting public acceptance for an idea.

Willis De Spain, in his talk today, said that the younger generation is not interested in history. I am sure he is right. However, I don't think they are naturally interested in botany or mathematics or physics or a lot of other things. On the other hand I believe that they become excited in any subject that is made "interesting." Has any great effort been made to make cooperative history interesting? What efforts have been made on the part of cooperatives to get written interesting cooperative history? John Eidam today told us how he was thrilled by a man who could use his historical knowledge of cooperatives to make clear why a given policy would not work. Maybe we'd better take another look at cooperative history. If we had more competent cooperative histories such as the book on Land O'Lakes, "Men to Remember," it could do a great deal to strengthen our cooperatives.

We should keep in mind that some of our respected American corporations such as Sears, Roebuck have a high respect for business history. One of the finest books on marketing and on business organization that I know of is "Catalogues and Counters"--the history of Sears, Roebuck Co. I recommend it to all of you because it contains ideas that pertain to cooperative as well as to other forms of business. A vice-president of Sears recently told me that they were going to bring this book up to date because it serves such a useful purpose.

Pride is a priceless ingredient in almost anything, but it is particularly important in cooperatives. If we don't know the history of something how can we feel pride in it? If we don't know the history of our nation how can we fully appreciate it? Wouldn't it have been a tragedy if the great founders of our nation had not been capable of writing an account of their experiences in setting up this nation? If all the history of this country were destroyed would we be any stronger as a nation or would we be much weaker?

"Involvement"--this is a term that we have heard several times in the last two days. How can we get people involved so that they will feel like standing up for their cooperative? If we are going to speak up for cooperatives, what do we say? If we are going to speak up for cooperatives we must know the facts about cooperatives. We must know how they operate. Do we know enough to speak up for cooperatives? Let's find out more about them as a basis for saying more about them. How do we say it? Do we go around with a chip on our shoulder or do we mind our business and politely give out helpful and reliable information?

It takes salesmanship to motivate and research to find out how to motivate. In general, cooperatives are too timid.

The Minute Man program of the rural electric cooperatives appeals to me. These Minute Men speak up for the kind of cooperatives they represent. I believe that we should have more minute men in all of our cooperatives--men who accept responsibility for speaking up for their cooperatives.

We must identify cooperation with the future of farming and of our country too. We often only see our own cooperatives and we don't see how big the idea is. In these meetings we have talked about strategy and tactics. How do we get agreement? How do you get directors to direct and members to participate? Take the tax problem. Do we face up to what the confusion is all about? I believe that too frequently members don't have a clear understanding of the economic and legal nature and objectives of their own business. As a result, they have been taken in by the propaganda of those opposed to cooperatives.

We can be confident of the future but that doesn't mean complacency. "Public relations has been defined as doing a good job and getting credit for it." Most people stress only the last part of this sentence. You've got to do a good job if you are going to get credit for it.

So to conclude--let's speak up for cooperatives and let's work to improve them while we do it.

FINANCING FARMER COOPERATIVES IN THE SIXTIES 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
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There are a great many people who believe that agricultural cooperatives are going to rise to new potentials in the sixties and achieve a much more significant position in American agriculture. This optimism is well founded, for great progress has occurred in the fifties.

Although times were hard for farmer cooperatives in the fifties, this encouraged them to make many fundamental changes. It is significant that they came out at the end of the decade much stronger than they went in. For one thing, cooperatives were forced to give more attention to the improvement of management, and this has borne healthy fruit. They have awakened also to the importance of membership understanding. As a result, the quality of their educational work is much higher than it was ten years ago. Although cooperatives have been slow to consolidate to meet the competition of huge business firms they are learning how to do this and they are steadily strengthening the structural foundations of American agricultural cooperation.

Moreover, during this period, considerable progress has been made in financial management within individual cooperatives. Many more cooperatives now engage in long-range planning. Let us not forget that the fifties will later be recognized as the time when the banks for cooperatives system began the changeover to farmer ownership and control. This has released the spirit and energies that come from freedom and independence.

In retrospect, it doesn't seem possible that less than ten years ago the term "agribusiness" was unknown. The increase in industry-farm integration has come so fast that farmers discovered almost too late that they must integrate through their cooperative organizations or largely lose control of their farming operations. Since most farmers like the idea of running their farms themselves rather than having their farms directed by others they are taking a fresh look at what cooperatives can do for them.

Some Questions To Consider

Before going on to my main topic let me ask you a few questions. Have cooperatives reached their peak? Have they gone about as far as they can go? Can they meet the competition of other well-financed, well-managed businesses? Are there organic handicaps in the cooperative system of operation and organization that cannot be overcome? Can cooperatives give farmers the advantages of economic integration? What are your answers?

1/ Notes used in talk at Annual Meeting of Minnesota Association of Cooperatives, "Cooperatives in the Sixties," Minneapolis, Minnesota, October 31, 1960. As only a small part of this material could be presented I have prepared for reference use. (J.G.K.)

One of the main dangers in cooperatives today is member complacency. Many farmers are too much inclined to let things slide. They are not sufficiently involving themselves in the questions which will determine the destiny of their industry. The primary question in many cooperatives right now is whether the farmer members and their leaders have the will to excel or the will to win. If they are determined to make their cooperatives succeed it will be hard to stop them. If they are but half-hearted, nothing will save them.

It is recognized that cooperatives of the future must be large-scale organizations. This, in itself, sets up dangers of bureaucracy and impersonal relations, but this can be avoided by wise leadership, sound policies, and good organization.

In looking ahead we must not make blind assumptions on the record of the past. If cooperatives are to excel, they must carry on more research in order to find out how to improve and increase efficiency. They must give more attention to the image that they show to the public. They must give more attention to the machinery of control to insure that they maintain the vigor of democracy.

Let us not forget that cooperatives were slow to meet the new developments coming with contract integration. They let their advantages slip through their fingers. In England, where I was this past summer, I found that the consumer cooperatives had been slow to recognize the changes in merchandising and social habits which followed World War II. They did not give up old methods fast enough and they lost much of their strong position. Now they are aware that the old-time ways must go -- that they must meet the new competition on its own grounds. In the old days the "divy" brought the business. Now the customer is not so "divy" conscious. He and, even more, she want quality merchandise, variety, credit facilities, attractive shops and low current prices.

Cooperatives may be fortunate that they are not too far out in front, for they must be, and stay, competitive to survive. Cooperation is a good system if it is worked right but it is not foolproof. Like any other form of business, it can't survive poor management, weak membership work, inadequate financing, and indifference to research.

During the fifties key cooperatives markedly expanded while cooperatives as a group made less progress. This process of weeding out the inefficient and strengthening the strong is bound to continue. By 1970 we will have many cooperatives that are much stronger than they are today, but no doubt part of their strength will come from their absorption of weaker organizations.

We are talking a great deal about economic growth today and we are competing with Russia in this area. We anticipate that there will be millions more people by 1970 and that there will be great changes in agriculture as well as in industry.

Economists agree that we will have fewer but larger farms. Requiring greater capital investment, farming will be more and more a professional, commercial enterprise. Those who continue in farming will be better trained for it and more alert to good business procedures -- on their farms and in their cooperatives.

It also seems possible that we will have fewer farm cooperatives but that they will be larger, stronger enterprises. The kind of cooperative needed is coming into view today. We are watching the larger cooperatives grow stronger. With cooperatives meeting a stronger competition than ever before from well-financed enterprises, mergers are increasing and they will continue to increase.

Finance -- The Key to Progress

If cooperatives of the seventies are to be larger and more economically powerful they must also be better financed, for finance is the key to size and progress.

Where are farmers going to get the financing to build the strong organizations that they will need? The obvious answer is: 1. From themselves; 2. From the banks for cooperatives and other financing institutions; and 3. From the investing public.

Let's dig further into this question. There will be little difficulty in well-organized, efficient cooperatives' finding the money essential for basic needs. Cooperatives can operate at cost and put all savings into their operations if necessary -- that is, if grower members believe in them and feel that it is more important to keep the organization afloat than to worry about whether they get a large patronage refund, or interest from their investment.

I found the following statement in a current report on the financing of English farmer cooperatives by William Morgan: "The size of the capital and credit problem depends on the part we envisage that agricultural cooperation will be playing in agricultural life in the future." I think this statement has application also to American conditions.

I am rather inclined to believe that many individual farmers are coming to realize that their very independence as farm operators requires participation in organizations. Farmers, like others, have become organization men. It follows that cooperatives must demand adequate financing from their members. One retailer cooperative wholesale requires that each member store own over $3,000 in capital stock. It seems reasonable that members of a club must pay their dues.

Economic Efficiency Precedes Social Contributions

As farmers grow in strength and size they should be more able to support the kind of organizations they need for service. If farmers of the future are better businessmen they will look upon cooperatives as economic machines of value to them. This does not mean necessarily that cooperatives would lose their social significance. Rather, there will be more widespread recognition that economic efficiency in cooperatives must precede their social contributions.

The financing problems of cooperatives involve such matters as saving, planning, budgeting, and credit control. The problem of getting money to finance cooperatives depends upon having organizations that can develop revenue and capital. Entirely too much emphasis has been placed on looking at cooperatives as if they were no different from other kinds of business organization. If we look at a cooperative as a group of members, no matter how large, joined together for a common objective and realize that its success as an organization depends upon its success in serving the interests of its individual members, we will have a better understanding of what kind of business a cooperative is.

In our thinking it is hard to keep from slipping back into the old idea that a cooperative is run in order to make something for shareholders or stockholders in their capacities as investors. While we must see that cooperative shareholders get a fair return for their capital contributions we must be very careful to keep the emphasis clear that the success of the cooperative as a cooperative is more important than its success as a money-making enterprise for those who are its shareholders. This battle has been fought over and over again, and many times the weeds of stockholders' interests have destroyed the character of a true cooperative organization. The old farmers elevators -- set up as stock companies -- were dedicated to the idea of making money for the farmers who held the stock, and emphasis was not placed on doing a good job of merchandising grain. They have left the scene, but many have not learned the lesson of their failure. We must be careful not to place emphasis on ownership of capital rather than on service to farmers for, in the long run, devotion to limited ownership interests will tend to starve out good service and this will dry up the cooperative.

What will be the volume of cooperative business in 1970? How far will it be integrated? If we knew the answers to these questions we would know how much capital they would need.

We can be fairly sure of several things. The volume of cooperative business is moving upward and will probably increase by many percent. Just how much depends upon cooperative leadership, cooperative management capacity, and cooperative membership understanding.

There is, I believe, a psychological pull based on economic factors that is favorable to the future of farmer cooperatives. There is growing recognition that strong cooperatives are essential to rural prosperity. What people believe becomes true.

While the opportunity is here for a great forward movement, cooperative achievement will take more than estimating it. In my opinion, cooperatives are going to have to fight every foot of the way to make progress and this I hold will give them strength and vitality.

Are Financial Resources Available For Growth?

There have been many who fear that farmer cooperatives will have difficulty in getting financial resources from farmer members and finance institutions necessary for expansion in the sixties. I am inclined to believe that this fear is unjustified. I prefer the opinion that the financial strength of cooperatives in the decade ahead will be more dependent upon their ability to use financial resources effectively. If cooperatives operate efficiently they should be able to attract from members and other investors the resources which are needed.

However, to acquire and administer necessary capital, cooperatives will need to place greater emphasis on financial management. In the Symposium on Capital and Credit Problems in a Changing Agriculture, held last March at Knoxville, Ernest T. Baughman and John M. Wetmore of the Federal Reserve Bank of Chicago presented a paper, "Prospects for Credit Supplies to Agriculture Under Conditions of Continued Economic Growth." From their well-reasoned analysis they concluded that "the prospective credit supplies to agriculture are likely to be adequate for the expected demand, largely because of the existence of a comprehensive set of institutions which can serve farmers efficiently and provide effective access to the national credit market for agricultural users which have a productivity comparable to productivity in the rest of the economy."

At this same symposium, Governor R. B. Tootell of the Farm Credit Administration gave "a critical appraisal of the adequacy of our agricultural credit structure." He saw credit playing an increasingly important role in the sixties, but he was confident that the credit machinery for agriculture could meet the strain. He asked this specific question: "Will the financial strength of lenders permit the expansion of agricultural credit that likely will be needed to finance the adjustments that seem a certainty for the decade of the 60's?" He concluded that the Federal Land Banks, Banks for Cooperatives, and Production Credit Associations could all double their loan volumes if necessary. He emphasized the fact that "our system brings imput-capital funds from urban centers rather than relying primarily on local capital for loan funds." He said, "We have the tools to do a good, constructive sound job." I would like to quote one of his concluding paragraphs:

> "Certainly adjustments must be made in credit to adapt it to the needs of a dynamic agriculture, but business principles cannot be stretched very far without disservice to both borrower and lender. Let us remember that credit can be substituted for income only within rather narrow limits and for short periods of time. It is not an enduring form of farm relief."

There is nothing more difficult than forecasting the future. We cannot do this solely by looking backward and forecasting the trends. The conditions which made the trends in the past may change. It may be harder to show progress in the sixties than in the fifties, for there are now fewer weak competing units.

The question is -- can cooperatives increase their competitive advantages over other business firms faster in the sixties? If cooperatives grow, it will be because they attract those not served by cooperatives, while keeping in the cooperatives those who are now served. It's as simple as that.

Capital Needs

In preparing for this talk I wrote to the presidents of the twelve District Banks for Cooperatives, the President of the Central Bank for Cooperatives, and the Deputy Governor of the Farm Credit Administration for Cooperative Bank Service. They are in an excellent position to know whether cooperatives are gaining or losing -- or standing still.

I asked them this question:

> "Based on your experience, what is your best estimate of the percentage increase in capital that will be required by farmer cooperatives in the next ten years?"

It is not easy to offer a prediction on what will happen in the next ten years. For example, A. C. Adams, President of the Spokane Bank for Cooperatives, said: "To blueprint a capital structure for farmer business cooperatives ten years from now would require someone endowed with a high degree of clairvoyant discernment, with ability to plot the trend of current forces and pinpoint the moments when they will explode into compelling action."

Of the ten presidents of the Banks for Cooperatives who answered my letter, all saw expansion of cooperative capital needs in their districts, although it was significant that the answers ranged from 25 to 100 percent, assuming that price levels remained about the same. Several saw cooperatives increasing in dollar volume of business, partly due to inflation. A number pointed out that more capital would be needed in the future to do as much business as at present. Without more capital in cooperatives they saw little progress. If all estimates were pooled they would average about 50 percent. The President of the Central Bank for Cooperatives and the Deputy Governor of the Farm Credit Administration for Cooperative Bank Service expressed somewhat similar views. Without making too much of these anticipations, it is significant that they show a decided upward trend.

I also wrote to some 25 managers of major regional cooperatives to get their views on the same question. They were, of course, looking at conditions from their own backgrounds. These men know the problems of growth, for their associations have progressed more than the average. In general, they were strongly optimistic over the trends ahead. They foresaw considerable expansion and much more need for money to accomplish it.

The individual cooperative managers of large regionals were much more willing to "stick their necks out." Their estimates depended upon whether the cooperative represented was well established or in a period of rapid growth. The managers of the better established, older associations estimated an increase of capital needs of about 50 percent, while the managers of the younger, more aggressive organizations estimated an increase of capital needs of about 100 percent, with some going much higher.

It was interesting that the managers of some of the older associations were more conservative as to the future than those with less experience behind them. These older associations have absorbed a larger share of their potential. They see gains ahead but not easy ones. They know how hard it's going to be to make them. Other organizations are on the threshold of consolidating their gains. The idea of "take-off" is important here. Some organizations have reached what we might call the "take-off" stage, to borrow the idea of W. W. Rostow, the economist who has used this term to identify economic systems which have become strong enough to be relatively self-supporting. We have many cooperatives that have taken off in this sense. There are many others that have just reached the "take-off" stage.

How Can Capital Be Raised?

My second question was:

> "By what method or methods do you think farmer cooperatives can best raise the capital they will require in the next ten years?"

Both the presidents of the Banks for Cooperatives and the managers of the cooperatives thought there would be little change in the form of capital used by cooperatives. They believed it would be provided largely by the members through investment of retained savings in some form. Some saw expansion from outside investments through the sale of debentures and preferred stock, and it was generally agreed that there would be a considerable expansion in borrowings from the banks for cooperatives and other financing institutions.

The replies from the cooperative bank presidents, including those of the President of the Central Bank for Cooperatives and the Deputy Governor of the Farm Credit Administration for Cooperative Bank Service, as indicated below, followed no definite pattern. For that reason I am liberally quoting views as expressed to reflect the actual situation.

*"There seems to be no easier way [than retaining savings] and farmer cooperatives will probably adopt the method most suited to their specific needs. That method will turn out to have been the best which provided an owner-equity capital base able to carry the superstructure of borrowed capital for department requirements and for seasonal needs during the business fiscal year, in a manner to make the business services materially available to members from day to day."

*"Some of the increase. . . will come from the sale of long-term debentures or notes. The greater use of capital retains is foreseeable, particularly in marketing cooperatives."

*"I believe cooperatives can best raise their needed capital by selling non due date paper largely to their own members who understand their program and a larger part of it by retaining their savings."

*"We believe that most of the new capital needed by cooperatives must be raised locally with a good part of it coming from the farmers themselves. There is more thought being given to evidencing membership capital by stock. As cooperatives get larger and stronger financially, outside equity capital should become more readily available."

*"Farmer cooperatives can best raise required capital over the next ten years (a) by a greater percentage of savings in anticipation of growth; (b) by increased use of debentures; and (c) by a slowdown in the rate of revolving capital."

*"The retain method."

The cooperative managers' answers to this same question showed that various procedures are being considered, ranging from reliance on stock sales to reliance on revolving fund methods and a willingness to use any method that might prove necessary. Most were planning to use varied approaches. Some of the individual replies follows:

*"Primarily from a larger period of revolution of our capital funds and through long-term borrowings based on an increase in members' equity."

*"I think our present method. . . of straight retains and revolving fund certificates, with the aid of the bank for cooperatives and other banking institutions, will furnish ample funds for expansion."

*"We will have to make use of all possibilities. These will include a) plowing back at least part of savings; b) use of revolving type deduction; c) sale of debentures to members; d) full use of banks for cooperatives."

*"Our objective will be to raise capital directly from our farm members, but we may need to depend a little more on outside financing in the way of seasonal loans from our banks. We may even find it desirable to use bonds or other similar financing."

*"We think we can best raise needed capital by issuing or selling stock to our members. Debt capital will undoubtedly be used, but such capital cannot be regarded as a permanent source of capital."

*"We will raise the needed funds through permanent capital stock, most of which will be preferred stock because this stock can be held by the general public. Farmers themselves cannot raise the capital necessary to finance their processing and marketing operations. With the help of the general public this can easily be done. . ."

*"Through sale of non-voting stock certificates in addition to reasonable retains from net savings. However, many of our cooperatives are finding it necessary to issue a certificate with a fixed maturity date such as a certificate of indebtedness. The investors like to have a maturity date together with a fixed interest rate unless they are dealing with a substantial cooperative which has had an outstanding history."

*"Cooperatives in this district will probably raise most of their needed membership investment for expansion through the sale of certificates of indebtedness and the accumulation of equities built out of earnings. There, of course, will be some cooperatives which will continue to raise capital by the sale of additional capital stock."

*"Through the use of capital stock. We choose to answer this question in this manner, expressing our opinion that the formation of capital through the use of capital stock is 'best' from the viewpoint of establishing in the minds of members of the cooperatives that desired sense of ownership responsibility. . ."

*"By a unit retain in products or services rendered which, in an anticipated increase in volume of the cooperatives, will build capital."

*"We think cooperatives can best raise the necessary capital: (a) through investment by owner members either from available funds or by borrowing the funds for this purpose; (b) by members allowing a portion of the savings to remain with the cooperative; (c) by the sale to non-members of preferred stock or interest-bearing notes or debentures; and (d) by borrowing from banks or other services."

*"We will get this capital by four methods: a) reserves, which become more and more important each year; b) sale of debentures; c) sale of preferred stock; d) common stock purchased by our local associations. We are attempting to equalize our common stock ownership with use of our organization so that each member organization will own stock in proportion to its volume of business with us. We pay our patronage refunds in cash and then ask member associations to buy common stock until their holdings are proportionate to use. This has worked very well."

*"Our association can best raise capital in the next ten years through the sale of stock to farmers."

*"Cooperatives should supply at least one half of their needs for expansion. Capital should come both from earnings and from stock sales."

*"Our need for capital during the decade will be more on a short term basis. The best source will be through loans with our cooperative bank system. For new organization and additional operations we advocate a required investment on a permanent capital basis by the members to cover a substantial portion of these expenditures. . ."

*"Our program for the next decade is to raise money primarily through debt, retained earnings in the form of certificates of equity, and the sale of stock. . . It is my personal opinion that finance, in general, is one of the weakest links in the general business principles of our large regional cooperatives, principally because of their failure to maintain a market for the securities that are sold to their members. We hope to get part of our future debt requirements from our members. I think the Farm Credit Administration and its cooperative banks will become increasingly important in supplying agricultural debt to the farming community and farmer cooperatives. . ."

*"One fourth of this capital should come from borrowed funds; one fourth from securities sold; and one half from reinvested savings, divided equally between revolving fund and permanent capital."

*"The easiest way to raise capital is through retained patronage refunds. However, marketing margins are too thin to provide sufficient capital. The alternative is to get out among the members and raise the capital."

*"The best way for us will be to issue a percentage of patronage refunds each year in common stock."

*"We plan to sell preferred stock, issue patronage refunds in common stock, and borrow from commercial banks and banks for cooperatives."

*"Cooperatives in our territory should expect their patrons to finance half of the expansion in fixed assets and acquire the balance through long term loans from the bank for cooperatives, insurance companies, or other financing agencies. Cooperatives might also sell some debenture bonds with due dates ranging up to twenty years to general investors."

*"By retaining a portion of our annual savings. This has worked in the past, and success in the future will depend upon savings being sufficient to meet needs."

*"We are planning to obtain necessary capital through sale of debentures."

*"We plan to use every possible way and, in addition to revolving capital, we may use various kinds of stock or debentures as well as assessments."

*"All kinds of methods. We must sell preferred stock and debenture bonds to farmers, both members and non-members, and we must tap many small town investors. In the long run, we must tap the general investment market. We must sell some of our securities to insurance companies and mutual funds. We expect also to use our banks for cooperatives to the greatest degree possible. . ."

*"We will get most of our capital from new income. In case of exceptionally large requirements for new funds we propose to use the new mutual fund which the Cooperative League is in process of organizing."

*"For immediate operating funds we will use bank for cooperatives and our finance organization and, if necessary, commercial banks. We plan to make more use of credit unions. We will use retained savings with moderation."

*"The best method we have for raising capital is retaining earnings. We have also been successful in issuing investment certificates. We have also sold preferred stock in communities where facilities are needed. We borrow large amounts for current operations."

*"By raising funds and increased borrowing on a sound basis from banks for cooperatives and commercial banks."

The Problem of "Back-Stop" Credit

In view of the recent expansion of contract forms of integrated operations it seemed desirable to obtain the views of the cooperative bank presidents and the cooperative managers on the following question:

> Will cooperatives as a result of integrated forces be put under pressure to extend "back-stop" credit to members whose present capital sources provide insufficient financing to meet their needs?

The answers of the presidents of the banks for cooperatives, as well as those of the President of the Central Bank for Cooperatives, and the Deputy Governor of the Farm Credit Administration for Cooperative Bank Service, indicate that cooperatives are being pressed by integration to extend "back-stop" credit. However, there was no agreement that this in itself is a bad thing or that it cannot be kept under control. Some of the individual replies follow:

*"Integrated forces may well put cooperatives under pressure to extend 'back-stop' credit or lose the business. . . if farmers are to withstand the forces of vertical integrated business."

*"Yes, but we believe there will be sufficient capital sources available to the farmer to finance his operations on a sound basis."

*"Yes, but cooperatives can't do more than possible."

*"Yes, can be wisely used, but."

*"No. No more than heretofore. The problem can be handled."

*"This pressure will increase."

*"Yes, but credit is available to those who desire it."

*"Yes." [Three so answered.]

The replies of the cooperative managers show that many of them are already extending "back-stop" credit, and that the pressure to extend such credit is increasing. However, it is significant that several cooperatives are developing defensive mechanisms with the cooperation of lending institutions to protect their financial resources. I am quoting these replies at length to reflect the important variations in emphasis and the high interest of the respondents. The individual answers follow:

*"We are taking advantage of integrated forces. The only factor limiting integration will be availability of credit from the banks for cooperatives."

*"Regional cooperatives and centralized cooperatives will be put under pressure as a result of integrated forces to extend back-stop credit to members. . . We are able to obtain money in sufficient quantities from the banks at a relatively low rate of interest, lower than obtainable by individuals, and as we are the recourse, the banks are entirely agreeable to supporting a rather substantial production capital financing program. . . This helps us to meet the force of integration and, importantly, it helps our members to retain their independence by doing so through their own cooperatives."

*"This is a most difficult question to answer. . . Our members and our directors are quite divided on the extension of farm credit . . . There are some members who favor it, while there are others who are very wealthy who resist it. I think this thinking could be changed overnight if there was any sign of a depression or if the cooperatives were faced with idle facilities that could only be put to work by furnishing some back-stop credit to farmers."

*"Pressure for backstop credit will increase. It has been our experience that we are called upon more and more to extend that service where the unit is sound. As farms become large and more mechanized the pressure also exists on facility loans. I hope that this can be taken care of through other lending agencies."

*"There may be pressure. . . but this will depend on the speed with which integration develops, financial strength of local units, and ability to get regular financial institutions to handle producer credit. We are hopeful that with the limited speed with which integration is likely to grow in our area that its pressure can be minimized."

*"I do not think that cooperatives should ever attempt to finance the members as there are other means through the Farm Credit Administration by which this can be done."

*"It is our experience at the present that we are by reason of good business rather than pressure extending backstop credit to retail cooperatives. Unquestionably the whole field of farm financing will become more and more important."

*"Regional cooperatives will be put under tremendous pressure for additional credit and it is something they must resist as strenuously as possible. Money for the farmers can best be raised by the association that deals direct with the farmers and those associations must be compelled to maintain themselves financially strong. If regional cooperatives begin to assume this credit responsibility the locals will ease off on efforts to increase capital."

*"All cooperatives should strongly resist credit to members. They should encourage more farm credit participation."

*"The answer should be 'no.' Much of this kind of backstop assistance has been given in the past but our members have substantially reduced their indebtedness. Most of our member associations are in position to establish a line of credit through the cooperative bank system to carry on any projects that may develop from time to time."

*"In order to stay in the milk business it is best for us to invest in distributive outlets. . . The pressure will increase."

*"In my judgment, regional cooperatives may have to do more than extend backstop credit because of the complexities of integrated operation and the terrific financial burdens placed upon such an operation."

*"It will be necessary for regional cooperatives to extend some credit to members to help them meet their financing needs. However, I think that considerable capital can be secured from other lending agencies."

*"There will be increasing pressure to provide all sorts of credit to members. I admit, however, that we have gone somewhat overboard and we would like to shift a substantial amount of responsibility to the Farm Credit Administration. An effort is being made to do this."

*"I would answer, yes. The regional cooperative will be put under pressure to extend bank credit. The pressure will be greater as farm units increase in size."

*"There is no doubt that pressure will increase. We are working in a small way with production credit associations in what might be called a modified application of the St. Paul plan. This involves the organization guaranteeing certain loans by P.C.A. to selected members. We like this and believe it has possibilities for wider use in the years ahead. We have no plan for direct financial assistance to members except as referred to in the 'assistance programs.' The assistance programs are interesting. They are a method whereby, through contractual relations, we supply feed and a few related items to poultrymen until their flocks are raised to the laying stage or broilers are grown to marketing age."

*"I feel certain that regional cooperatives are put under pressure to extend credit as a result of integration in farming operations where capital needs are expanding very rapidly."

*"There is no question but that regional cooperatives are going to have pressures during the next ten years to become more fully integrated to the extent of supplying credit to the members whose present capital sources provide insufficient financing. This form of service may have to come through a closer working relationship with the banks for cooperatives in conjunction with the regional cooperative associations if we are to remain an efficient competitive one-stop service for our producers."

*"I believe that regional cooperatives are and will be under greater pressure to extend agricultural credit to local cooperatives and, in turn, to the farmer members. . . No ordinary young man can acquire the capital to do a good job of farming unless he has the capital to do a good job of farming and unless he has the capital to manage it. Therefore, he will look to farm credit agencies, his cooperative, and private dealers to furnish great amounts of capital through credit."

*"Yes, very definitely, I think regionals will find it necessary to assist and financially backstop local associations. Locals usually do not have equivalent resources for integration or substantial expansion without central assistance."

*"We believe that affiliated associations will look to regional cooperatives for backstop credit."

*"There will be great pressure on cooperatives to extend backstop credit. Most of the assistance should be through the banks for cooperatives and P.C.A.'s and, in emergencies, through the cooperative. Cooperatives should not undertake to do the job. We don't really believe that we should use the equities of those people who finance themselves to help finance others."

*"The pressure will continually increase but this should be resisted as long as capital is available to members of regional cooperatives."

The $64 Question

It is a generally accepted principle of cooperative operations that members should supply adequate amounts of equity capital. If the financial needs of cooperatives grow appreciably in the sixties this will call for more financial support from members.

My fourth question was designed to get the views of the cooperative bank presidents and cooperative managers on how this could best be achieved.

"How do you think the sense of obligation for participation in cooperative affairs--including increased responsibility for furnishing ownership capital--can be better developed in members?"

A number of the bank presidents and cooperative managers observed that this was the $64 question.

There was quite a little variation in the responses on this question from the cooperative bank presidents, the President of the Central Bank for Cooperatives, and the Deputy Governor of the Farm Credit Administration for Cooperative Bank Service, but there was agreement on its importance. The answers stressed continuous programs of education; improvement of operating results; management leadership; and better two-way communication between members and management.

Some of the individual answers follow:

*"Continuous programs of education as to the benefits of cooperatives may develop a deeper sense of obligation for participation in cooperative affairs and financing. We are thinking of such things as stressing the assured markets or sources of supply, the bargaining power achieved, and possibly even pointing out the savings realized per dollar invested in cooperatives."

*"The best way I know of increasing a sense of obligation is for a cooperative to improve its service to patrons. As service is improved, whether it be in the form of price, quality or otherwise, membership participation will also increase."

*"To develop a better sense of responsibility among members for the affairs of cooperatives, especially the responsibility for furnishing ownership capital, we see no better means than management's anticipating growth, planning for it financially, and selling the program to members."

*"I think the ability of a co-op to increase the sense of obligation of its members, including their furnishing of capital, depends almost entirely upon conviction on the part of management that the job can be done. In our district certain co-ops have raised unheard-of capital funds where it was believed that the farmers had no money. In other instances, it has been extremely difficult to convince management that capital could be raised. Once the effort is made the results have been satisfactory and surprising to management in each instance."

*"I think cooperative leaders clear across the board will need to give much more attention to this problem than they have in the past. The individual members of cooperatives have generally been dragging their feet in assuming responsibility for the success of their joint business except perhaps in dairy cooperatives and certain marketing cooperatives handling their products on a pooled basis."

*"The development among members of a sense of obligation for participating in cooperative affairs, including the increased responsibility for furnishing ownership capital, is a longtime program that in our opinion is a very essential one. . . We believe that the membership relations clinics, started last year, will prove to be an important factor in helping to develop this situation and provide a sense of responsibility among the members of farmer cooperatives as time permits the membership relations personnel to study and apply practices presented at these clinics."

*"This has been concerning all of us. It is my personal view that there has not been a sufficient amount of education at the grass roots to impress upon patrons of cooperative associations that they are the owners of their own business. There seems to be a widespread lack of consciousness of ownership. . . It is my feeling that when we can instill in the patron the feeling of ownership of an interest in his association we will automatically see an acceleration of his participation in the affairs of the cooperative. When there is an active interest in the affairs of the cooperative and an intelligent knowledge of the manner in which it operates and a pride of ownership there will be a corresponding increase in the willingness of patrons to make necessary investments in needed capital."

*"Successful operating results by cooperatives with margins over those of competition will largely provide necessary capital. Continuing education may assist to a slight extent; also, better reporting to members."

*"I feel there is no substitute for telling the members precisely what is required to do the job. This can best be done by word of mouth in day to day individual contacts and membership meetings, supplemented with information in news letters and house organs."

*"Public relations people are making considerable progress along these lines in many cooperatives, particularly in the larger ones which can afford full-time personnel on this type of work. Smaller cooperatives should study the methods being used and at least have some time spent in connection with this and other educational problems."

All of the banks for cooperatives' presidents, including the Deputy Governor of the Farm Credit Administration in charge of Cooperative Bank Service, were concerned with the question of how to get members to provide more financial support for their cooperatives. This implies that cooperatives are not doing enough to attract capital from their members. They must do so to survive and grow. It appears that this problem is not being worked on hard enough -- at least by most cooperative organizations. They have not stressed the importance of equity capital as a foundation for achievement, and they haven't built up in members confidence that if they provided capital they will see the results in better operations and services.

Cooperatives must have the capital to provide the services members want and if members are happy with the services provided they will support cooperatives. Cooperatives must borrow if necessary to do essential things but borrowing should be for a purpose and on a plan.

The views of the cooperative executives on this question were quite similar to those of the bank presidents but they reflected an even more direct concern. This, in itself, is of great importance, for a problem recognized is half solved. Typical replies were:

*"This is a continuing responsibility of management. It can never be neglected. The same principles apply to maintaining democracy and freedom in America."

*"Creating an increasing sense of obligation for participation in cooperative affairs by members in furnishing more ownership capital is a real problem. . . It is a constant job but members must be made to realize that they <u>own their business</u> and that their cooperative is not just a buyer and seller. This is increasingly difficult with second and third generation cooperators."

*"There is no better way to get the maximum responsibility or sense of obligation of participation in cooperative affairs than to have the farmer 'get his feet wet' by furnishing all of the base capital for the operation of his cooperative. When they have got an investment in it large enough that they just can't afford to do business elsewhere they have reason enough to see that the cooperative is well managed and furnished with sufficient volume to operate economically."

*"There is no simple answer and certainly no one method can do the job alone. We need to make use of all means available and certainly must put more emphasis on the fact that farmers have tremendous investments in the production end of their farming operations and must at least in part match this by additional investments in their marketing machinery. The matter of marketing has become so important that our farmers with their tremendous investments must not forget this end of the business or they are likely to lose the benefits of all of the other efficiencies that they initiate in their farming operations."

*"Our membership thoroughly understands that a portion of our net savings are reinvested in the business. To date, they have readily accepted this as a sound investment in the future, and I see no reason for any change in this attitude."

*"We believe in the basic fundamental of rotating our capital on a relatively short period of years and while it is outstanding to pay a reasonable rate of interest, our present rate being 5 percent per annum. This makes it more likely that the member will recognize that his investment in his association is a sound one, creating a savings account for him and at the same time paying a reasonable rate of interest. We are also in a better public relations situation at income tax time. The farmer realizes he is paying income tax on his margins which are reinvested in this type of security rather than in a type of security that has neither any seeable maturity date or any reasonable rate of interest."

*"There is no pat and easy answer for the problem. . . as you well know. . . A successful business operation is one important ingredient. This must be followed with meetings, publications, and other communications designed to show the members the need for capital. Membership understanding is a never-ending job. Work of this kind is slow plodding, often unrewarding work, and yet it must be carried on continuously in order to be effective. It cannot be turned off in the good years and be expected to be effective when times turn bad."

*"We have never had any difficulty in getting our members to finance the cooperative to the fullest extent because we have always paid very good dividends on this capital stock and a great many farmers like to invest their spare money in this stock. . ."

*"It is my opinion that cooperatives, of necessity, will need to operate on a better business basis and thus pay back a patronage or earning that will show the farmers that cooperatives are part of their overall income. I am firmly of the opinion that cash patronage refunds are one of the best membership relations programs any cooperative can carry out at this time."

*"It would appear to me the best way to increase the sense of obligation for participating in cooperative affairs would be (a) to the maximum extent possible, make the cooperative venture financially successful; (b) allow the member to participate in the financial benefits by a return of cash; (c) maintain good member relations; and (d) keep the members informed. The greatest motive to induce a person to make an additional investment is to demonstrate to him that his present investment is good."

*"It is my opinion that the only real effective way you can develop a sense of obligation or a desire on the part of members to assume responsibility in furnishing capital is through your operating procedures. To acquire this an organization must render outstanding service so that the member may be impressed with the real benefit of that organization. Our experience is that where they operate in this manner they do not have the problem of financing by the members. On the other hand, where this is not the case, they consistently are confronted with membership problems."

*"A two-way flow of communications between management and membership is certainly the best means of having a fully informed and completely loyal producing group. Here the pipelines must run in both directions from management to the grassroots and from the producer to management. Our local committee system gives us an excellent modus operandi of hearing reports from management, past and present, as well as the plans for the future. . . It seems to me that a combination of these vehicles keep our membership informed and perhaps serves as the basic reason we have always been successful in acquiring the investment or get capital that we have asked members to invest in their own organization."

*"I wish I knew how to answer this question. It is one of the toughest that we have to affront us but I think that fundamentally there are three ways to do the job. (1) See the people; (2) see the people; (3) see the people."

*"I think we need a continuous educational program to convince our members that it is definitely their responsibility to furnish capital so that their cooperatives can grow and continue to furnish a good market for their products."

*"We rely on a strong membership relations program to develop a sense of responsibility on the part of membership for providing the necessary ownership capital to take care of our needs. So far we have been successful. I see no reason why we cannot continue to be."

*"There is no reason why cooperatives shouldn't study their capital potential and develop a program to get the use of that capital in cooperatives. . . I think cooperatives must research and analyze the economic need of any endeavor into which they expand. . . Before we ask our members or other people to invest, cooperatives need to be careful in their planning and be assured of a reasonable rate of return on the capital in use so that the investor can be paid in dividends the going rate of return. A business investor should earn something for risk capital. . . If cooperatives can operate on this basis I believe there is sufficient money available for equity capital If we can build the equity capital to the proper level we then establish a basis on which we can obtain working capital through the cooperative farm credit system and other financial institutions."

*"There is not only a need to get across to members their responsibility for furnishing capital but also the need for recognizing that the cooperative is truly their organization and should not be treated as just another source of supply. We are dealing with the second and third generations and we are finding that the younger farmers do not look at the organization the same way their forefathers did. . . I think the best way to develop a sense of responsibility in members is to continue to use every opportunity available to acquaint them with the advantages of working together through their own organization. Nothing does as much good in this respect as sound economical service with full value for the dollars they have to spend."

*"For several years we have been able to raise substantial amounts of capital by continually impressing upon our members and patrons the need for financing to perform the services which we feel they will need. . . I also believe that if the cooperatives will pay a competitive rate of return on their securities many retired farmers will invest their savings in cooperatives."

*"A sense of obligation for participation will come by giving a more efficient complete service within the competitive cost range to the producer member. If we are doing an honest job, properly representing the facts in performing the service, we will be supported and that means in all ways, including investments of ownership capital."

*"I am all for attempting to increase the responsibility of the member for furnishing ownership capital. . . I think we may be able through education to get him to balance his limited capital between production, purchasing and marketing, but it is very hard to get an adequate balance when his total reservoir of capital is insufficient. . . I am firmly convinced that most of us haven't faced up to the great capital needs ahead of us."

*"In my opinion, the sense of responsibility must be developed by establishing patterns for participation and then sincerely encouraging genuine participation by members."

*"Creating a sense of ownership and responsibility is the big problem of many cooperatives. How best to accomplish it? I only wish I knew the answer. At the present time there is less genuine loyalty to cooperatives than existed some score years ago. This is brought about, in part, because management and directors take it for granted that most people know what a cooperative is. . . We must sell not only gas, batteries and feed, but the cooperative way of doing business."

*"This is the biggest problem we have and one for which cooperative management will never be satisfied. Often it is said that the younger generations don't see the need for cooperatives as much as their forefathers did. I question this and have faith that the story good cooperatives can tell will convince the thinking young farmers of their need to invest in marketing cooperatives."

*"I think the answer is -- through a continuing process of education, bringing about an understanding of the important part capital plays in the operations of any sound business. This must be a continuing program."

General Observations

Several questions have come to mind as I have reflected on this general problem. Can cooperatives build up through their own power the financial resources necessary to finance their operations? If not, are there resources within agriculture able to perform this financial function? Is there any reason why farmers should not use other financial sources for this purpose?

In fact, is not the banks for cooperatives system now tapping non-agricultural financial resources for use in financing farmer cooperatives?

Are cooperatives employing good financial management in their operations? Can they do a better job of using what capital they have? How can they keep down their interest costs? Are they building up free reserves of equity capital fast enough? It should be recognized that other forms of business enterprise have generally built up -- after taxes -- a considerabl amount of interest-free surplus.

There is much to be said for a revolving fund system of financing in that it keeps the contributions of members equally balanced in the use they make of the service but if there is rapid turnover of members or small savings in certain years it is hard to keep a normal balance. Real study needs to be given in many organizations to the kind of financial structure that will be best for them in the long run. We in the Farmer Cooperative Service have studies of this kind underway for we think there is no area where we need more immediate research, but there is need for greater agreement on basic financial principles.

There is great danger that cooperatives may put too much emphasis on raising capital, without giving enough attention to what they would do with the money if they got it. More funds poured into many cooperatives without a careful plan for its use would cause them to be careless and extravagant and probably would do them more harm than good.

I have read a great many articles lately which stress that cooperatives are going to have a great need for capital in the next ten years. While I agree in general that this is the case, there is danger that we may become obsessed with this line of thinking. We must remember that not all cooperatives are going to have an opportunity to use more financial resources. Some are not economic operations at present and more capital will not answer their problems. At present we are going through a process of consolidating agricultural cooperatives and those which survive are apt to be strong organizations. Naturally, they will need more capital, but there is no need for more capital for organizations on the way out if they see their position clearly.

Thus we can say, generally, that cooperatives are going to need more capital just like we can say that farmers are going to need more capital. A business nowadays requires good machinery and good facilities, and we know that many cooperatives are run down and in great need of new equipment and new plants. If cooperatives just hold their own in the economy they are going to be doing more business in the sixties than they are doing today, for the economy is expanding about 3 percent a year. To supply an expanding population they are going to need more facilities to take care of the increasing volumes of business that will come almost automatically.

Cooperatives will need to give attention to another problem in the years ahead -- the kinds of securities that will best attract the capital needed. Recently there has been much discussion of mutual funds as a capital-raising device for cooperatives. It appears that these funds will grow in significance as a source of capital and will provide opportunities for individuals and cooperatives to invest surplus funds. Some have claimed that the banks for cooperatives will not be able to supply enough capital to take care of expansion needs. This can be questioned, for I am informed that the banks for cooperatives can double and redouble the amount of their loans if necessary.

Another idea we hear much of today is the financing of facilities through the lease back method. This method is well established in American industry. Some companies make use of it -- some do not. It's the old question of whether it's more advantageous to own a piece of property or to rent it. If you can get someone to provide just what you want and the rent is not excessive there is much to be said for renting property on a long-term lease. On the other hand, if you know what you want and you are going to use the property for a long time and you can depreciate it properly, there is much to be said in favor of owning property and operating it that way. If an organization is well-financed it can borrow on the equities which it has in the property and thus largely make use of its value.

While the lease-back and mutual fund systems may serve a useful purpose and extend financial knowledge among cooperative personnel, it may be unwise to put undue reliance on such procedures. At least, cooperatives should not look upon them as panaceas for their financing problems when they should be settling down to the hard job of getting an answer to them. With good management and good membership support cooperatives will find plenty of members as well as others who will give them the necessary financial backing.

My study of this topic convinces me that there is no simple answer to the financing problems of the future. There are a lot of things that can be done to strengthen the financial position of cooperatives and much will depend upon the way individual cooperatives meet their own financial problems.

I am convinced that we need much more study in the financing area. We need to know a lot more relative to the merits and weaknesses of financial programs that are now being used.

New methods must be investigated such as the lease-back and mutual fund proposals, but good old budget preparation and use will need even more attention.

In preparing for this talk I looked over a large number of cooperative annual reports to see how they dealt with the problem of financing. I came to the conclusion that few cooperatives were adequately using this opportunity to explain their financing needs and methods. I believe that members would appreciate more complete information on how their association was being financed and of the problems involved in financing it.

In my opinion, the next ten years will be of crucial importance to farmer cooperatives. In this period we will determine the future of American farming. I am confident that effective cooperatives can be the key to a prosperous agriculture. One of the major cooperative problems will be to find the money -- for it takes money to keep cooperatives vigorous and in a leadership position. This will call for more and better leadership, more education of members in their financial responsibilities, and more attention to planning and research. To meet the challenges of the sixties cooperatives must be good -- in an organizational and operational way -- and strong in a financial way.

It is often assumed that all we need is money to achieve great ends. I would change this to say -- To achieve great ends you will need to know how to use money wisely. The point I am trying to make is that <u>you have to have great ends in mind</u>. Let's not get the cart in front of the horse.

If cooperatives are going to greatly expand in the sixties -- their leaders must have great ends in mind. They must believe in the cooperative way of doing business and expand its use. They must find new ways of using cooperatives, such as carrying integration further. They must believe that cooperation is the way of the future and demonstrate by usefulness that it should be.

If cooperatives gain the enthusiastic support of those who use them they will be able to find the money for necessary expansion, for people will support that which they think they need.

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PREPARING AN EFFECTIVE RESEARCH REPORT 1/

By Joseph G. Knapp, Administrator
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A research study is of little practical significance unless the findings are presented in an effective manner. Expenditures for research work cannot be justified unless the report, giving the results of the research work, can be easily read and understood.

In order to prepare an effective research report, the research worker must keep the finished report in mind during every stage of the research project. Every step should be tested to see whether it will directly or indirectly contribute to the preparation of the final report. The material that follows shows the importance of sound research procedure in the development of an effective research report.

1/ This statement was prepared in 1938 for use in a Farm Credit Administration report writing conference. It is being re-issued, without change, for the Farmer Cooperative Service Publications Improvement Workshop , January 16-17, 1961.

DEFINITION OF RESEARCH

Before proceeding with this discussion on research procedure, let us consider two definitions of the word "research." According to Webster's New International Dictionary, research is careful or critical examination in seeking facts or principles. W. C. Schluter, in his book, "How To Do Research Work," gives the following definition: "Research is the endeavor to discover, to develop, and verify knowledge. Latent and unverified knowledge, being the objective of a quest or inquiry, must then be conceived in terms of problems. Research is, therefore, directed toward the discovery of problems, and consists of the methods upon which the solutions of these problems are predicated."

FORMULATING THE RESEARCH PROBLEM

In order to formulate a research study, or project it, it is essential to first develop a project statement which will carefully set forth the working plan for the conduct of the study. In preparing the project statement full consideration should be given to the following topics:

Determining the exact purpose of the study

It is important for the research worker to have in mind an exact goal or objective. The goal may be either specific or general or both, depending upon the nature of the problem. At any rate, the research worker should have his aims well in mind.

Defining the scope of the study

In many cases research work is started without careful delimitation of the field of study. If the purpose of the study has been exactly determined, it may be possible to obtain the necessary data without covering too wide an area. The research worker should determine whether the study is to be intensive or extensive, whether it is to cover data for one year or for a number of years, etc.

Considering the availability of data for the study

It will be desirable to find out the degree to which data necessary for the conduct of the study are available. This calls for a preliminary survey of the sources of data. In this connection it will be helpful to prepare a brief list of bibliographical materials.

Appraising procedures for conducting study

There are a number of different methods which can be used in carrying on a research study - mail questionnaire, personal interview, correspondence, laboratory experiment, case study, study of printed documents, etc. Each study requires a careful selection of means to be used in solving the problems involved. Not all of the means to be used in conducting a research study can, however, be earmarked in advance. It is essential that the research approach be flexible.

Preparing the preliminary outline

An outline serves to give a study logical arrangement, structural unity, and completeness. The original outline may be likened to an architect's sketch - it simply blocks out the major divisions of the study for further consideration. The original outline cannot be complete nor final. The preparation of an outline continues throughout the conduct of the research investigation.

When a research worker has his material gathered for a chapter or section of a manuscript, it is then possible to work out a chapter outline which is somewhat analogous to an architect's blueprint. The chapter outline, however, should be subject to modification as long as this appears to be for the best interests of the study. In other words, the preparation of an outline should be a cumulative process which only ends with the completion of the manuscript. It then serves as the structural framework of the manuscript.

Scheduling time for completing study

It is well to work with a definite time objective. As far as possible, the time for each stage of research should be estimated. Within reasonable limits, however, time should be a guiding rather than a controlling factor, for adequate time is essential for sound research. If a research worker strives to keep too closely to a deadline, he may be inclined to do superficial work.

Selecting personnel to conduct research

Competent research work requires competent research workers. Competent research workers must have a special aptitude and training for research investigation. Since research work is concerned with advancing human knowledge, only those with considerable capacity are competent to achieve this end. Research workers must have common sense and be honest, alert, original, tactful, sympathetic, patient, and accurate.

As far as possible, the personnel for a specific research problem should be selected with the special conditions in view. A man may be very competent in many fields and yet may not possess the qualifications for doing good research work. Furthermore, a man who would be entirely satisfactory for research field work might not have ability for carrying on the analytical and literary aspects of the research project. Division of labor is as important in research as it is in any other field of economic activity.

GATHERING THE DATA

Obtaining material from library research

It is generally helpful to collect all available information from printed sources which will assist in the conduct of the study. In this connection notes should be taken in such a way that the material so collected can be readily used in preparing the draft of manuscript. This means that proper citations can be made at a later time.

Preparing the questionnaire

The preparation of questionnaires for research work is a topic of so much importance that only brief reference can be made to it here. In general, however, it may be said that questionnaires should be made as short as possible to obtain the required information. Every question should be so clearly worded that there will be no uncertainty as to the type of answer required. Before a questionnaire is used, it should be tested by consultation with other research workers, and if possible, it should be used in a sample way before it is prepared in final form. Furthermore, the questions should be organized in a logical manner.

Obtaining information in field with questionnaire

In using questionnaires to obtain data, field workers should always remember that they are not employed as detectives. They should be informed so that they can explain the questions raised, and they should use common sense in getting the information with as little fuss as possible. However, the field worker should remember that it is highly essential that he get all available data in an exact form. In some cases it may not be desirable to use a formal questionnaire for an interview. In such cases the research worker should take notes on the interview either at the time of the interview or immediately thereafter so that the facts so gathered can be recorded for future use.

Editing the completed questionnaires and verifying facts

Because of the importance of questionnaires in most of our research work, it is advisable that questionnaires be edited by the interviewer and the person conducting the study as soon as possible after the data have been gathered. In the actual work of completing the questionnaire, it is often necessary to work rapidly so as not to take up too much of the time of the person interviewed. By close editing and verifying immediately thereafter, it is often possible to clarify many points and build up the content of the questionnaire.

Obtaining information through correspondence

In the type of studies carried on by us, much information must necessarily be gathered by correspondence. In carrying on such correspondence, it is essential to secure the full interest of the person from whom the information is desired. The character of the letters requesting information must have a personal, but dignified, tone. Furthermore, it is desirable to weigh carefully all letters requesting information to see that they call for the exact information required. Everything that we have learned in the letter-writing conferences should be helpful in drafting the proper kinds of letters to obtain information.

ORGANIZING THE DATA

Devising work sheets

Considerable care should be taken in preparing work sheets for use in organizing the data. Carefully prepared work sheets in themselves help to bring out the essential facts. The work sheets should be neatly prepared and complete so it will be possible to work with them rather than with the original data. In this connection, all work sheets should be kept intact until the manuscript is completed and then filed for a reasonable period. In research work, every brick should be accounted for until the final structure is completed.

Preparing tabular and chart information

After the work sheets have been prepared and the original data transferred to them for preliminary organization, the information should be worked up into tabular form. In this connection, great care should be used to secure accuracy and completeness and the most effective presentation of facts. It is often worth while to prepare data in chart form even though the charts may not be used in the final manuscript. This procedure may enable the research worker to understand more graphically the data with which he is working.

DRAFTING THE REPORT

Developing chapters and sections

Chapters and sections are nothing more than major thought groupings. As already noted, it is advisable to prepare a detailed chapter outline as a basis for developing a chapter. It will then be desirable to assemble the data in accordance with the provisions of the outline. Then the writer should proceed to draft the manuscript for the chapter, sentence by sentence, paragraph by paragraph, and section by section, to marshal most effectively the facts as shown by the data. In preparing each chapter, attention should be given to word choice, proper sentence and paragraph structure, most effective use of exhibit and

tabular material to the text, and proper use of footnotes. No comment is here necessary with reference to word choice, sentence and paragraph structure, since these topics have been adequately discussed in prior letter-writing conferences.

With reference to exhibit and tabular material, I am of the opinion that long tables and exhibit material should be presented in an appendix, if it is necessary to include them in the report. In general, if the research work is well done, it will not be necessary to include appendix tables, simply to give all of the data used in preparing summary charts and tables. To illustrate what I have in mind, an appendix table might properly be used to show the individual cost characteristics of a large number of associations which are referred to in only summary fashion in the text of the manuscript. I should also like to say with reference to tabular and exhibit material that in general such material should be presented so clearly that it will not be necessary to provide all of the data also in the text. The text should call attention to the significant facts only, and let the tabular and exhibit material do most of the work.

Much discussion could be given to the matter of footnotes. I am of the opinion that they should be used sparingly, and that each footnote should be concisely expressed. However, they should be used wherever they are essential to call attention to important facts, which cannot be expressed in the manuscript without slowing up the reader's interest. Here again, tact and discretion must be used.

After the preliminary draft of a chapter has been prepared, it should be subjected to a careful reworking to achieve unity, coherence, and proper transition. The chapter should then be set aside while other chapters are being prepared, since it may prove desirable to modify the material itself in the light of the preparation of other chapters. As chapters are prepared, however, the research worker should endeavor to get any available criticism which might help in perfecting the finished manuscript. In some cases it may not be advisable to get extensive criticism until the manuscript is completed, because one chapter by itself may not be entirely clear to persons not acquainted with the whole character of the study.

Completing the study

After all of the separate chapters are prepared, a detailed examination should be made of the final report as a whole to determine weak spots, helpful changes in style and tone, and general effectiveness. It will be desirable at this stage to prepare the conclusions which should serve to marshal the evidence developed in the individual chapters. It will then be possible to re-write the objectives of the study in the form of an introduction which will give the manuscript the proper kind of send-off to secure the greatest degree of the reader's attention.

The introduction should serve to give the reader a running start into the manuscript. It should indicate clearly the nature of the problem, and it should provide any background information that would serve to make the purpose of the study more intelligible to the prospective reader. In the "introduction," I include all the introductory material at the beginning of a bulletin or report which may serve to orient the reader so that he will go into the study fully prepared to get the most out of it.

The question of proper balance in historical and interpretative material as a basis for the finished report must necessarily depend upon the nature of the study. If the bulletin is of a case analysis type, generally very little historical material will be needed. If, however, a broad general development is being discussed, a greater amount of historical material can properly be included. Economic research, especially in a field like cooperation, is largely related to the historical or evolutionary process. If we do not understand the way in which developments have occurred up to the time of the study, and if such developments are not made clear to the reader, the significance of the study will oftentimes be weakened and rendered ineffective. I am not making a point for long, rambling historical discourses at the beginning of the typical research cooperative bulletin. I am, however, convinced that a terse, but adequate, historical presentation of a situation to date will often prove desirable in building the reader's interest and in showing the significance of the study being undertaken.

The conclusions should be succinctly written to bring out the general facts found by the study. In some cases the conclusions can be very short; in other cases it may be desirable to use several pages in order to provide a certain amount of general interpretation which will explain the significance of the conclusions. In referring to the conclusions, I should also like to give my views with reference to the preparation of a summary. The summary should be designed to enable the busy reader to get in a terse fashion the significant facts brought out in the study. The summary is therefore not to be considered competitive with the conclusions, but is to be looked upon more as an abstract of the study as a whole. It seems to me that if a summary of this type is to be included in a bulletin, great care should be used to keep it down to one or two pages. I am of the opinion that a summary should simply serve as an appetizer to the reader's interest, and not as an inventory of the entire bulletin.

Obtaining competent criticism

After the study has been prepared in final form, it is desirable to get outside criticism from competent authorities in the field. It is, of course, understood that a research worker during a research project should at all times use his best judgment in determining how much criticism would be beneficial to the conduct of the study. In our work, we are very fortunate in having in our group men who can help each other in reviewing manuscripts to make them most effective.

With reference to criticism, I should also like to observe that in our work where we deal constantly with important organizations, it is especially significant that we work with these organizations as closely as possible during all stages of our research work. This does not mean that we should endeavor to get their criticism on every step as it is taken. It will generally prove desirable, however, to take the organizations into our confidence with regard to procedures followed and progress being made within the dictates of discretion.

When the manuscript is completed, it should be the last word on the subject. The introduction should clearly indicate the purpose of the study and the separate chapters should march along logically to demonstrate that the study has been competently and completely made. The manuscript should be properly and adequately illustrated with charts, tables, and photographs, to further secure the reader's attention. The concluding chapter should bring together the general facts found by the study so that the study is one logical whole from the beginning to the end.

CONCLUDING STATEMENT

Research work is a highly individual matter, which depends to a great extent upon the independence, training, and originality of the research worker. For that reason, the methods followed in research work must depend largely upon the research worker. If a research worker is not competent to carry on a study as he thinks best, without minute and continuous supervision, it is doubtful whether he should be assigned the task in the first place.

The following statement from a talk by Dr. H. G. Moulton, President of the Brookings Institution, on "Scientific Research in Economics and Government," is of particular interest in that it sets forth the conditions under which research work is conducted at the Brookings Institution.

> "'It is the function of the trustees to make possible the conduct of scientific research under the most favorable conditions, and to safeguard the independence of the research staff in the pursuit of their studies and in the publication of the results of such studies. It is not a part of their function to determine, control, or influence the conduct of particular investigations or the conclusions reached; but only to approve the principal fields of investigation to which the available funds are to be allocated, and to satisfy themselves with reference to the intellectual competence and scientific integrity of the staff.' 1/

1/ From bylaws of The Brookings Institution.

"This limitation of the function of the trustees does not imply that they are not responsible for the maintenance of high standards of scientific achievement. Their responsibility of course includes the selection and appointment of officers and major staff personnel.

"Freedom to scientific workers, it is recognized, involves responsibility on their part to adhere always to the strictest standards of scientific inquiry. I think I can say that the staff members of this Institution accept this responsibility.

"Just as the trustees seek to safeguard the scientific position of the staff, we have endeavored in our internal organization to safeguard the position of individual staff members from possible domination by superior officers. While all investigations must meet certain standards of workmanship, it is our policy to provide for the expression of alternative points of view and the inclusion of dissenting opinions with respect to major issues of interpretation."

APPENDIX

SOME "DON'TS" FOR RESEARCH WORKERS

1. Don't bite off more than you can chew. Your appetite may exceed your capacity.

2. Don't let methods become stereotyped. In other words, conform the data and treatment to the problem, not to a routine.

3. Don't forget to keep the reader always in view. If you don't, he will get away.

4. Don't allow yourself to get bored on one phase of the work - jump to another. Research work requires fresh, active brains.

5. Don't get offended by honest criticism. Perhaps it will save your skin later.

6. Don't fall in love with the organization you are studying. You might want a divorce.

7. Don't let your analysis be one-sided. We are supposed to be non-biased.

8. Don't be afraid to be original. Columbus and all great research men have seemed eccentric to the crowd.

9. Don't be too modest. Always strive to make yourself the authority on the subject you attempt to analyze.

10. Don't include extraneous material. The material in a research report should be definitely related to the subject.

11. Don't "talk down" to your readers. They may know enough to resent it.

12. Don't cater to "highbrow" readers. They should be satisfied with concise and well-expressed ideas.

13. Don't be impatient for quick results. It takes time to develop sound conclusions.

14. Don't be too self-satisfied. Discontent implies that your mind has not come to rest.

15. Don't turn in the manuscript until it represents your best work. The editors will still find plenty to do on it.

HOW FARMER COOPERATIVE SERVICE CAN CONTRIBUTE TO THE RURAL AREAS DEVELOPMENT PROGRAM 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

Our work in Farmer Cooperative Service ties in closely with the objectives of the Rural Areas Development Program. To the extent that we can help marketing, purchasing, and various kinds of service cooperatives improve their operations, we make direct contributions to better rural living standards.

I know that you are interested in building effective cooperatives for we have had the opportunity to work with N.C.R.E.A. and rural electric cooperatives on many problems of common concern, especially those related to stronger management, membership support and better financial structures. We have long believed that cooperatives can be very important tools for rural betterment, and we have already issued two rural resource leaflets relating to the use of cooperatives in RAD areas. (1) Cooperatives Have a Place in Rural Community Progress explains how cooperatives aid in rural development. (2) The Rural Credit Union - A Place to Save and Borrow points out how credit unions can help build community capital and provide supplementary sources of credit for farm business enterprises. Copies of these leaflets can be picked up at your publications table.

I also would like to point out that we can provide basic information on a wide range of cooperative problems. We have publications available on management, financing, accounting, processing, merchandising, transportation, membership relations, directors' responsibilities and many other subjects related to the effective organization and operation of farmer cooperatives. A current list of our publications is available upon request.

We are now preparing a kit of our cooperative materials for use of workers in RAD areas. This will be available in a few weeks. It will include popular publications dealing with sound principles of cooperative organization and operations, financial, management and membership relations responsibilities. This kit will help tie into planning for rural areas improvement.

We are also making an inventory of farmer cooperatives in counties in the RAD areas. We need to know what cooperative resources are presently available to determine how they might be strengthened. This inventory will be completed early in the summer.

1/ Comments for panel at the National NRECA Conference on Rural Areas Development, Willard Hotel, Washington, D. C., May 15, 1961.

It is our belief that some of our large regional marketing and purchasing cooperatives can do more to encourage rural development within the areas they serve. Up to now their energies have not been marshalled behind this work. We are exploring this problem with one large regional marketing and purchasing cooperative and from this study we hope to develop some guidelines that may be generally useful to similar organizations in other parts of the country.

We are well aware of the considerable interest in the possibilities of meat processing cooperatives. We prepared a report on "Farmer Meat Packing Enterprises in the United States" a few years ago which has been in wide demand and is now being reprinted. We are now preparing a supplement to this report that will bring it up to date and point out lessons from this experience. This report will be available by July 1.

If such cooperatives are to be organized they should be developed along sound lines. It would be extremely unfortunate and detrimental to cooperative advancement if at this time a number of ill-conceived ventures should be set up. Careful planning is essential if failure is to be avoided, and if worthwhile results are to be obtained for farmers and rural communities.

We are working on many projects that have real possibilities in the RAD effort. For example, we believe that there is need for forestry cooperatives to help farmers better market their wood products. We have work underway on this problem with the Forest Service, Extension workers and the State universities.

We also believe that present conditions call for the strengthening of many cooperatives through merger or consolidation. We have prepared a little report on "Mergers for Stronger Cooperatives" that may be of real interest to you. Copies can be picked up at your publications table.

We believe that use of cooperatives in the RAD program will call for much more educational work with rural leaders. We have a supply of educational materials that can be drawn on for this purpose. Our staff can also be helpful in planning cooperative training conferences in cooperation with Extension workers and with representatives of cooperative organizations.

I would like to tell you more of our research, advisory, and educational work with cooperatives and how it can be used in RAD work but time will not permit. My main object here is to indicate that Farmer Cooperative Service stands ready to help farmers on their cooperative problems to the extent of its personnel and resources.

I recently prepared a short article entitled "Dynamic Cooperatives for Today's Farmer." My aim was to point out that we need really dynamic farmer cooperatives if we are going to help lick the farm problem through cooperative effort. I listed the essential characteristics of dynamic cooperatives as follows:

"They have firmly established and well defined principles and objectives. They have well informed participating members. They have well qualified and highly competent boards of directors. They have alert, aggressive and capable managers. They have enthusiastic and interested personnel--with high morale. They are well organized to do all the work they undertake. They know where they are going through carefully laid plans. They are adequately financed to meet new opportunities as they arise. They have excellent accounting systems and records. They employ research to know how best to operate. They enjoy fine relations with other business establishments and the public. They cooperate to the utmost with other cooperatives on mutual problems. They take on new jobs--and don't stay in ruts. They have sources of inner strength and are not easily stopped."

I would like to sum up by saying: There is no magic formula for cooperative success. Strong cooperatives, like strong nations, are built with "blood, sweat and tears."

There are great opportunities for cooperatives in the RAD program but they must be reached through hard work and careful planning.

RESEARCH AND EXTENSION NEEDS IN AGRICULTURAL COOPERATION 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

The subject before us is an old one. It has engaged the interest of people concerned with agricultural cooperation since the American Institute of Cooperation was formed, and even before. One of the main objects in setting up the American Institute of Cooperation was to encourage research and educational work in agricultural cooperation. I would like to suggest, if you have not done so, that you review some time the Proceedings of the first Institute which was held at the University of Pennsylvania in 1925. You will find that the search for answers was a dominant feature.

There was widespread experimentation in agricultural cooperation in the twenties, and this led to the passage of the Cooperative Marketing Act of 1926 which provides the authority for the research and advisory work that we now carry on in the Farmer Cooperative Service.

It should be recalled that this was a period of ferment for all phases of agricultural economics under the leadership of men like Edwin G. Nourse and John D. Black These two I think deserve special mention, particularly Dr. Nourse since he built the program of the first Institute and got it started as a forum to examine, expound and disseminate cooperative ideas.

Ken Stern and I had a conversation recently with Dr. Henry C. Taylor who recalls how, as Chief of the Bureau of Agricultural Economics in the U. S. Department of Agriculture, he helped set up the American Institute of Cooperation in 1924, He said it was necessary to get a man who could balance the fine organizational genius of Charles Holman with the inquiring mind of a scholar who could give content to building its programs. Dr. Nourse provided just the complementary attributes that were needed to get the Institute underway as an aggressive but reflective organization. Fortunately, it has never lost the advantages of this early start.

1/ Talk at The Research and Extension Workshop on Farmer Cooperatives, American Institute of Cooperation, August 19, 1961, Minneapolis, Minnesota.

"Research in Agricultural Cooperation" (1933)

Many of you may not know that under the leadership of Dr. Black, the Social Science Research Council developed a series of some twenty comprehensive handbooks in the early thirties that covered research in all phases of agricultural economics and rural sociology. These are remarkable documents, which are still worth study. Of course, the volume in the series of particular interest to us is No. 15, Research in Agricultural Cooperation, which was issued in June 1933, with Dr. John D. Black as Editor.

This volume had a brief introduction by Dr. H. E. Erdman, who indicated that, while the report would deal with research in all lines of cooperative activity, the emphasis was to be placed upon cooperative selling. He said, "The objective of the report is to outline agricultural cooperation as a field of research and review from the standpoint of methodology the research already done or in progress in this field or involved in a list of projects selected for special consideration."

The introduction was followed by an introductory essay by Dr. Black on "Cooperation as a Field of Research." I would like to quote a few of Dr. Black's sentences. He said, "For the purpose of this report, cooperation is defined as including only forms of organized collective effort of the business type." He went on to say that this did not mean that the non-pecuniary values in cooperation or the ideals or values commonly associated with the idea of welfare would be ignored or that the sociological and psychological phases of cooperative activity would be largely subordinated to profit-seeking and financial gains.

Dr. Black's statement is so valuable and so pertinent to the situation today that I am tempted to give it in full. However, I will content myself with quoting only two sentences from it. "Research in this field pertains closely also to fundamental subjects in the general field of economy theory. Not until cooperative procedure takes its place on a par with the competitive in the standard treatises on economic principles shall we be able to say that cooperation has found a place in our economic system."

Dr. Erdman then reviewed the history of research in agricultural cooperation in the United States, and this was followed by individual analyses of many selected research projects, with methodology proposed for each. It was pointed out that some were comprehensive, calling for macroscopic analysis of a large subject, while others were confined to narrow subjects or to limited areas.

Section 1 of the report contained a group of projects related to cooperation in general. Under this head, projects were divided into Groups A, B, C, D, and E.

Group A covered projects related to cooperative structure. I will list a few of the project titles and the specified objective.

Project 1. Operating Organization - Locals.

Objective: To determine the factors affecting the form of operating organization best suited to various forms of economic activity, commodities, communities, etc.

Project 2. Capitalization Structure

Objective: To analyze the different forms and types of capital stock cooperatives in different lines of economic activity, marketing, production, credit, etc., in order to determine the adaptability to these different lines of activity and to special circumstances affecting cooperation.

Project 3. Operating Organization, Decentralized Types

Objectives: (1) To describe the actual structure of a federated cooperative association; (2) to analyze the functioning of its several parts in relation one to another; and (3) to appraise the suitability of this type of organization to the character of the commodity, the structure of its market, qualities of its personnel, and other pertinent elements, Dr. Nourse prepared this project plan.

Project 4. Operating Organization, Centralized Types

Objectives: To determine the characteristics of the centralized form of cooperative association, emphasizing the adaptability of its organization features that are in contrast with those of decentralized cooperatives. I prepared the outline for this project.

Project 5. Membership Agreements

Objectives: To describe and classify the various types of agreement between cooperative organizations . . . This project plan was prepared by Dr. Black.

Group B covered projects relating to cooperative procedure. This heading included projects on "Methods of Developing Cooperatives," "Cooperative Attitudes and Information," "Membership Information Service" (E. A. Stokdyk), "Enforcement of Contracts with Members" (E. G. Nourse), "Functions and Activities of Local Units" (O. B. Jesness), "Control of Production by Cooperatives" (J. D. Black), "Improvement of Quality and Standardization of Product by Cooperatives" (H. B. Price), and "Case Analysis of Different Practices in Pooling" (Hutzel Metzger).

Group C included projects related to the economic and other social bases of cooperation. Here we find some old friends such as "Competition Between Cooperatives," "The Genesis of Cooperative Enterprise," (B. H. Hibbard), "Practices Associated with Success of Cooperatives," "Economic Benefits from Cooperatives," "Social Benefits of Cooperatives," "Cooperative vs. Competitive Behavior."

Group D. covered projects related to the legal basis of cooperative organization procedure. One of these projects was "The Legal Status of Compulsory Pooling and Production Allotment Arrangements in the United States." Of course, our old friend, "income taxes," was also dealt with, as was "fair and unfair competition."

Group E contained projects dealing with the public relations aspects of cooperation. The first project in this series was "Diffusion of the Benefits of Cooperation," and the objective was "To determine the diffusion of benefits from cooperation among members, non-members, consumers and the general public." H. E. Erdman prepared the information for this project. Another project in this group was "Public Relations Maintenance." The objective was "To determine the effectiveness of the practice and procedures of various cooperatives for attaining and maintaining desired relation with the public." (M. R. Benedict) Another project considered the public aid aspects of agricultural cooperation.

Section 2 of the report dealt with cooperation by forms of activity. Then a number of projects were grouped under Cooperative Selling. There was a similar group of projects relating to cooperative buying. And there was another group of projects relating to cooperatives production. Another group dealt with projects relating to cooperatives in the field of public utilities and in this group were included projects relating to cooperative insurance and cooperative provision of electric power and light.

The third section in the report dealt with miscellaneous subjects that did not seem to fit into the other categories. One of these projects, developed by Dr. Nourse, is worthy of special attention. It was called, "Cooperative Theory and its History," and the objective was (1) "To discover the views of cooperative promoters, organizers, officers, and members - past and present - regarding the operation of economic forces in business organized cooperatively; (2) to organize a statement of these theories into a body of cooperative doctrine or into several partly consistent and partly divergent economic philosophies; (3) to show the relation to and contrast with other schemes of economic thought." I commend the reading of this project outline to those who feel that this has been already done.

When I look back upon this work, Research in Agricultural Cooperation, written almost thirty years ago, I realize how far we have come and also how far we have yet to go to accomplish some of the things that were embraced in the vision of those who prepared this little volume. I doubt whether it has had the influence that it should have had in building depth and comprehension in agricultural cooperation. If it had been given more study and more attention it would have borne more fruit.

One of our problems in this country is to build a conception and an appreciation for cooperative scholarship. We are prone to be disdainful of the scholar in agricultural cooperation. Whereas, scholarship in agricultural cooperation can have results of the most practical nature. This little handbook was an endeavor to bring out this message and it was partially successful. It is still a source of real inspiration.

"Research in Agricultural Cooperation--Problem Areas" (1953)

The reorganization of the American Institute of Cooperation following World War II brought a resurgence of interest in agricultural cooperation, and this led to the preparation of Research in Agricultural Cooperation -- Problem Areas, which was issued by the Farmer Cooperative Service in preliminary form in 1951 and in revised form in 1953. It is available to all of you and most of you have examined it. The work of shaping it up in its various stages was done largely by Kelsey B. Gardner, and we brought Dr. Adlowe L. Larson in for a two-week period to help us get the report in final form.

The first draft was prepared following a Workshop as an outgrowth of a meeting of the Research and Education Committee of the American Institute of Cooperation which met at Madison in August 1949 under the chairmanship of Harold Hedges. At this meeting consideration was given to a survey that would bring up to date the publication, Research in Agricultural Cooperation, issued by the Social Science Research Council in 1933. This was followed by separate conferences with agricultural economists and rural sociologists to develop projects of particular interest to their disciplines.

It was decided to place emphasis on needed research work in agricultural cooperation, particularly in problem areas. It was stated that the primary objective of the report would be to assist research workers by directing their attention to areas in agricultural cooperation where research was needed. Another objective was to stimulate research. Some of the major headings in this report were as follows:

The Cooperative as a Form of Economic Organization

The Economic Role of the Cooperative With Relation to the Market

The Relation of Agricultural Cooperatives to the State and to Society

Internal Social Organization of Agricultural Cooperatives

Relationship of Agricultural Cooperatives to their Social Environment

This report can be described as a compendium of good ideas on needed research in agricultural cooperation.

The main value of this report has been to suggest how much we don't know about agricultural cooperation and how open the field is for incisive and competent research. The report did not deal with the how of research, for it was assumed that standard research techniques could be applied. The emphasis was more on the why and the what.

This report can be likened to a cafeteria which provides such a wide variety of food that one doesn't know how to select what he wants to eat. The researcher must determine just how important the proposed research may be and of course this has its advantages, for different people have different interests and kinds of contributions to make.

I have sometimes wondered -- how can we get people to make better use of this report? Perhaps its best use is as a source of reference for college teachers who have graduate students who are trying to identify areas of study in preparing master's or doctoral dissertations. I would not strike out much of the report as being no longer pertinent.

I would also like to say that I think that this report has served a very useful purpose. In the first place, it provided valuable training to the many in the colleges and those on our staff who helped in its preparation. The very process of preparing the report served to widen interest in needed research. In the second place the report has helped to give dignity to the field of agricultural cooperation by showing its breadth and depth. In the third place it has given insights to many research scholars. There are probably several more things that could be said in favor of the report but this will suffice for the present.

Now I wish to turn to another development which has encouraged research in agricultural cooperation, also with the active sponsorship of the American Institute of Cooperation.

The Agricultural Research Conferences, 1954-1959

In 1954, J. K. Stern, President of the American Institute of Cooperation, and I, as Administrator of the Farmer Cooperative Service called a national conference on Research in Agricultural Cooperation, to be held in Washington, D.C. We looked upon this as a joint activity with the land-grant colleges and we invited all of the land-grant colleges to send representatives.

We were well pleased with the results. Over 20 of the land-grant colleges participated and a foundation was laid for better coordination of Federal and State research efforts in this field.

It was the common view of those who attended this meeting that it would be advisable to hold a number of regional conferences of this kind. As a consequence, the American Institute of Cooperation, in cooperation with the Farmer Cooperative Service, sponsored such regional conferences in cooperation with a host land-grant college at Washington State College, Clemson, Texas A & M, Kansas State University, and Pennsylvania State University during the next two years. Through these conferences we reached most of the land-grant colleges and I think that through them much was done to encourage an interest in research in this important field.

After we had gone around the circuit it seemed desirable to hold another national conference in Washington, D.C., and this was held in March 1959. We also decided to make this a 3-day meeting and to devote the last day to the problems of teaching agricultural cooperation. More than 40 land-grant colleges were represented at this conference, and you have no doubt examined the proceedings.

I think that one of the main values of these conferences, like the research conferences sponsored at the annual sessions of the American Institute of Cooperation by your research and education committee, has been to bring together people who have an interest in research in agricultural cooperation. By pooling ideas we get inspiration to move forward.

Research in Cooperation for the New Frontier

New Frontier thinking has imparted a new interest to agricultural cooperation. The rural areas development program, the increased interest in foreign assistance programs, and the greater emphasis on self-help marketing programs have all emphasized the need for more research work in agricultural cooperation. It seems desirable therefore that we now hold another national conference on research in agricultural cooperation at some centrally located point. Fortunately, the Nebraska Center for Continuing Education at Lincoln, Nebraska, is available for a conference of this kind, and we have made arrangements to hold a third national conference during March in 1962. Preliminary plans are now being made for this meeting and we will be very glad to get your suggestions on how we can make it most useful. At some later date we will solicit your program suggestions.

Now I want to bring this part of my talk to a close by looking ahead. So far, I have tried to show in a general way what progress we have made in the field of research in agricultural cooperation during the past thirty years. Now I would like to briefly consider what we might do in the future. Before doing that I want to refer to the study made by Dr. Wendell McMillan of our staff a couple of years ago in which he gathered information on all master's and doctoral theses published relating to the field of cooperation. He did not limit the field strictly to agricultural cooperation but he included also consumers and other forms of cooperation.

One of the things that attracted my attention was the considerable number of theses that have been prepared since the first doctoral thesis on this subject was recorded in 1916. This was a study made at Princeton University on the Sunkist organization, then the California Fruit Growers Exchange. It is also interesting to observe how many well-known agricultural economists have prepared master's or doctoral dissertations in this field. While the number of doctoral and master's theses concerned with cooperation has expanded by decades there has been a percentage decline relative to the total field of agricultual economics and rural sociology. It is also significant that most of the theses have dealt with operating problems rather than with what might be called cooperative theory. If any of you have not seen Dr. McMillan's little study I would like to suggest that you obtain a copy and give it careful examination. It will be of value in suggesting possible thesis subjects for your graduate students.

In the Farmer Cooperative Service we are continuously confronted with the problem of determining what research work needs to be done. To a considerable degree we work on problems that are brought to our attention. In other words, the need for the research determines what we do although we try to anticipate needed work. For example, recent changes in agriculture have focused attention on problems relating to mergers and integration. The need for more research work in financing has been emphasized as organizations have expanded.

The problems of membership relations and public relations have grown in intensity with the strength of competitive opposition to all forms of cooperation. Questions relating to taxation of cooperatives have also focused our attention on certain kinds of studies.

I would say that one of our problems and one of the problems of all research people is to determine what research is of strategic importance. To help us in planning our own research activities, I wrote recently to a number of college people as well as to cooperative managers and presidents of the banks for cooperatives to get their ideas on needed studies. As you can imagine, considerable emphasis was placed on problems relating to consolidations and mergers, membership financing studies, methods of improving management, and organizational structures for effective marketing and purchasing.

This leads me to suggest that we need to devote more attention to the problem of delineating the strategic areas which need research attention. To use a trite expression: "If we can find the right problems we may be able to develop the right answers."

I realize that there is a great variety of views as to what research can be most productive and useful. The process of trying to determine what is most important may serve a useful purpose in better centering our efforts.

Using Research Results

After I had prepared the above, Paul Mohn asked me if I would broaden my talk to cover extension as well as research needs in agricultural cooperation. I replied that I would be glad to, in that I consider extension equally important with research. We have found from long experience that good research work requires equally good extension efforts in getting the ideas developed from research into effective use. What is known but not used is wasted.

Before going on, may I express my satisfaction in the growing interest of agricultural extension workers in this field, as evidenced by the talks we have already had in this conference. I am glad to see extension workers taking hold of actual cooperative problems and applying available research findings to their solution. In some cases the extension worker to be effective must do a considerable amount of research himself to understand and to be sure of the facts that he is working with.

While research and extension are two different fields, calling for two different approaches, we must not keep research and extension in two different compartments. To be most effectlively used research and extension must be thought of as a partnership relationship -- with each partner essential to the other, and well informed on the other's activities. I like to think of extension as the field force and research as the production force of a factory. They must interact and serve each other if the plant is to achieve full operating efficiency.

What are the needs in improving our extension work in agricultural cooperation?

For one thing I think we need a broader understanding of the importance of agricultural cooperation among extension workers. To be effective in this field, workers must be well informed on the theory and practice of cooperation. This is a technical field that calls for specialized training just like agronomy or animal husbandry. We should give more attention to the training of extension workers in agricultural cooperation.

There are some who maintain that cooperatives are like other"firms" serving farmers. I can't go along with this. Cooperatives are a particular kind of "firm" in that the farmers themselves operate them and share exclusively in their benefits. Any work with cooperatives thus directly benefits the farmers who are served. This is not said in criticism of other firms. My only point is that a "cooperative firm" is distinctive in character. When one works with a farmer cooperative he is working with a group of organized farmers, and in this day of organization can we work effectively on marketing and other economic problems except through organization?

George Abshier has raised the question of whether state extension services should have policy statements on work with cooperatives. I am an advocate of such statements for I think they clear the air and give extension workers backing in this important work. Recently a representative of an agricultural college told me that the policy statement of his institution was indispensable in working with cooperatives.

If there is any question with regard to how far extension workers should go in their work with cooperatives this should be clarified by a policy statement. In the absence of a policy statement, each individual worker must try to work this out for himself. All organizations need policy direction.

There is one question that comes to mind on this point. Who should take the initiative in drafting a policy statement for a State? It seems to me that the farmers and cooperatives of the State may have an interest in this matter for they want to know what they can expect from the extension services of their States.

In conclusion I would like to propose a marriage of the concepts of research and extension through research to find out how extension workers can assist farmers more effectively on their cooperative problems. What do cooperatives expect from extension workers? What do extension workers expect from cooperatives? How can these expectations be harmonized?

Research and extension workers and cooperatives have much in common and I think they need each other to best serve agricultural needs.

WHERE DO WE GO FROM HERE? 1/

As in the past, I wish to say a few personal things in closing this Workshop.

I think all will agree that we have had stimulating sessions. Irwin Rust has done a superb job as Chairman of the Workshop Committee. He has thought of everything in the way of arrangements and facilities, and carried through his mission with distinction. He has been supported by a very able committee, and I wish to here recognize all of the members: Warren Mather, Henry Bradford, Wendell McMillan, George Tucker, and Kenneth Samuels.

I wish also to recognize the Chairman of our Highlights Committee, John T. Haas, and the members of his committee: Francis Yager and Nelda Griffin.

The intellectual content of the contributions of our guest speakers has been uniformly high. We appreciate their magificent cooperation. I have been impressed also with the high quality of our staff presentations. The chairmen of the sessions have all handled their responsibilities well. Although we have had our customary good humor we have maintained a high sense of professional dignity throughout. It has been pleasing to have with us our alumni, Leonard Conyers, L. B. Mann, Eddie Ballow, Tom Hall, Don McMullen, and several others. L.B. made a real contribution and Leonard naturally emphasized the importance of transportation. All members of staff can be pleased with their own performance.

I also wish to comment on the work of our pleasant coffee hour hostesses: Mrs. Potts, Mrs. Harris, Mrs. Riley, Mrs. Wallace, Mrs. Schricker, and Miss Doris Ann Judy. The coffee and cakes were wonderful. I understand the cakes were baked by Mrs. Potts.

We can be pleased especially with our press release coverage. We are really getting a double-barreled use of the fine content of our program. The Highlights report will give us a third barrel -- and an article in the News a fourth.

1/ Remarks by Joseph G. Knapp, Administrator, Farmer Cooperative Service, in closing the 24th annual staff workshop, December 14, 1961.

Now let's get into our subject: Where Do We Go From Here?

We have heard a lot about the challenge of change this week. I hope that all of you are now in a malleable, flexible state, ready for anything and everything.

Change is something we have long lived with in F.C.S. We are not the same organization that we were a year or so ago, or five years ago, or twenty-five years ago. We have evolved with the times and seem to be right in the groove, if I interpret the new frontier correctly.

In the F. C. S. the veterans pass and new veterans are born. How many of you go back before the F.C.S. was formed? In a few more years there will be few members of staff who date before World War II. So it's not the oldtimers who will hold you back -- if you don't move forward in the future.

My point is that we are more a new than old organization. We have traditions -- it is true -- but they must be tested by the realities of the present -- to survive.

John Curtis told us to accentuate the positive. I think we must and should. We must keep everlastingly on the ball if we want to keep it.

By this I mean we must not be blown by every new breeze that comes along. In our desire to cooperate we must see that we protect the basic program we are set up to handle.

As Administrator, I look upon things from a little different vantage point than that of many of you. In an organization so subject to requests for assistance as FCS our problem is to provide the supply of services to meet the demand for them. As it is, we have a problem of allocating scarce resources. We have to decide priorities as to what is most important. Probably this is good for us. While I agree with Barney Allen that we should not hide our light under a bushel basket, we had better keep in position to do well what we are directed to do. Let's keep our eye on the ball.

We are frequently urged to do more basic research -- in integration, in market structure, etc., etc. Take the matter of patronage refund theory. We should be doing more study on it. What about the basic principles of cooperation in todays changing environment? Who is studying them in depth? Now I would like to see this basic research phase of our program greatly strengthened for it supports our advisory and educational work. But this takes manpower -- and highly competent manpower.

We are also told that we should work more closely with State departments, State councils, State colleges, etc., etc. Ken Stern says we should be drawing blueprints of desirable cooperative development. This seems like a good idea but there are some questions on this, too.

Where should we apply our limited resources? You tell me!

Of course, there is the theory that demand builds supply. To some extent this may apply. However, Government budgets are relatively inflexible. This means we must consider both our supply of services and the demand for them.

We must have a carefully planned program. We must have a well-trained, imaginative staff. We must recognize our responsibilities and also our leadership potential. A great organization is not measured by bodies but by men -- and I mean men like Anne Gessner and Beryle Stanton,too.

Where do we go from here? The answer is "there." Let me quote again a sentence that recently attracted me. "If you want to go from here to there you must know where there is."

Now where is the there we want to get to? That's for you to largely decide. What do each of you personally want out of the Service?

1. Money - salary? Of course

2. Position - status? Of course

3. Opportunity? Of course

4. Responsibility? Maybe

5. Honor? Yes

I may also ask -- what are you really willing to give to the Service? Do you look upon it as an opportunity for creation of achievements? How much are you willing to pay in effort, in self improvement, in sacrifice, in courage, in loyalty?

I think the future of our Service is good, based on staff performance this week. We have a long way to go to get to there if we put there high enough -- but I think we are on the way.

This concludes my remarks.

I declare the 24th Annual Workshop officially closed.

WHY WE ARE HERE 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

Our theme this year is Helping Cooperatives Grow. Therefore, we are here at this Workshop primarily for the purpose of pooling our thinking, plus that of our friends, on how we can best help cooperatives expand their organizations and operations -- in other words, to grow.

I feel that our Workshop Committee, under the chairmanship of Irwin Rust, has developed a most challenging program. It recognizes that cooperative growth is comprised of many ingredients.

Most important of these is "leadership vision," which is the subject of our session this morning.

Growth also calls for dynamic management and we will get to a consideration of this ingredient in our second session, this afternoon.

In our third session, tomorrow morning, we will examine new tools to promote operating efficiency, which are essential for growth.

Our fourth session, tomorrow afternoon, will deal with growth through the merger process -- a subject of pressing importance to many cooperatives. In many cooperatives merger or acquisition is the key to growth.

On Wednesday morning, at our fifth session, we will deal with the economic sinews of growth -- finances. Adequate financing makes growth possible.

Our sixth session, on Wednesday afternoon, recognizes that cooperative growth demands the wholehearted support of members and the good will of the public. How do cooperatives obtain this?

We finish up Thursday morning with an examination of current legal and tax problems. I think that all of you will admit that if these matters are not well handled, growth will be slowed down, if not impaired.

So this, with a few other items, is our package. It will not give us all the answers -- heaven forbid -- but it should give us a lot of rich ideas on how we can improve our work in helping farmer cooperatives grow.

Why is it so important that we focus our attention today on the problems of cooperative growth? I will list a few reasons:

1. Cooperative growth is needed to strengthen services required by farmers -- in marketing, in obtaining production supplies and in carrying on other farming operations.

1/ Opening remarks for 24th Annual Staff Workshop of the Farmer Cooperative Service, Washington, D. C., December 11, 1961.

2. Cooperative growth is necessary to reduce costs and increase savings for farmers.

3. Cooperative growth is an indispensable condition for increasing farmers' bargaining power. In a world of economic giants one must be fairly big to survive.

After many years of work with farmer cooperatives I have come to the opinion that the future prosperity of American agriculture depends upon the rapidity with which strong farmer cooperatives can be established. All of us in Farmer Cooperative Service know what first-class cooperatives can do to help farmers, for we see evidence of it every day. I see signs that cooperatives are on the march again, and I am confident that progress will generate more progress. Without doubt, cooperatives could do much more to help farmers if they could double their volume in the next ten years. This is not a fantastic goal for during the past decade cooperative volume increased by 50 percent, but it will not be achieved without effort. With the right kind of leadership it is a real possibility. A doubling of volume, moreover, would probably increase their economic strength by much more than this -- for it would give cooperatives a greater leverage to influence the character of our total agriculture.

A good many people have but little appreciation of how important farmer cooperatives are becoming in the United States. As far as cooperatives are concerned they live in a world of delusions. (I looked up this word in my dictionary and got this definition: <u>delusion</u> -- a fixed, dominating or persistent false mental conception resistant to reason with regard to actual things or matters of fact.) They don't see the changes that are demanding and bringing greater cooperative strength. We must wake these people up -- especially if they are opinion makers. We must give them a vision of what cooperatives are doing and can do for American agriculture.

I have just read a challenging article by Richard B. Young in the current issue of the <u>Harvard Business Review</u>. This article is filled with ideas that cooperative leaders might well consider. In it Mr. Young reports on a fundamental study of the basic causes of corporate growth being made at the Stanford Research Institute. He defines a growth company as "one that not only increases in size (the usual growth definition) but also achieves some desirable business objective." I think that all of us would accept this general definition for a cooperative association.

I was particularly impressed with Mr. Young's observation that "It may well be . . . that the master key to the origin of the corporate growth process is something completely <u>outside</u> the company." He goes on to say "The magnitude of the impact of environmental change . . . seems sufficiently powerful to merit strong and practical consideration by individuals in top management." The point Mr. Young is making is that the right environment "makes it considerably <u>easier</u> to grow." I would apply this to cooperatives by asking: <u>Are they sufficiently alert to their environmental opportunities for growth</u>?

Mr. Young also says, "The financial growth of the firm, reduced to its fundamentals, appears to hinge most frequently on the union of opportunity, preparedness and action."

Think about this statement in the light of your own experience with cooperatives. Is this statement true? Does it apply to Sunkist Growers, G.L.F., C.C.A., S.S.C., Land O'Lakes, etc., as well as to Sears, Safeway, Swift, General Motors, etc.? I think it does.

In his article Mr. Young asks this pertinent question, "What can a management do to cope better with its changing environment?" He gives two answers: "First, a consistent program for monitoring the environment to keep the company aware of any potential for change appears an obvious necessity." He claims that it is better to be concerned with the question of "What is going on in the world?" than later to try to find out "What in the world's going on?."

Secondly, Mr. Young says that "A program for sensing opportunity in change is required." Here he emphasizes the necessity for creativity and timing.

I have quoted this article at length to help us see the importance of the opportunities before us. We can do much to help cooperative leaders understand the environment they live in, and we can help them sense needed adaptations to change.

I had my own vision raised last week in Columbus, Ohio, by Dr. Mervin G. Smith, Head of the Department of Agricultural Economics and Rural Sociology, at Ohio State University. Speaking before the annual meeting of the Ohio Cooperative Council he said: "We continue to underestimate the rapid changes taking place in agriculture."

I was most interested in Dr. Smith's views on the future of cooperatives. He said: "I do not believe we have used cooperatives to the extent they could be used in stabilizing markets and in more nearly equating farm production with consumer demand."

He then said, "If cooperatives are to be important in our future agriculture, they must lead out in adjusting the farm marketing and supply agencies in line with the changes that have taken place in technology, the changes on farms, and other changes in accordance with long-run goals and objectives. They must devise new methods, new products, changes in products and should be capturing the consumer's imagination. Cooperatives have not developed as they should in many cases because they have not become leaders of the industry and have lacked the projection of their service far into the future."

Dr. Smith subscribes to the view expressed recently by a writer in the Washington Post: "If you want to get from here to there, you must know where there is."

I think these random comments will serve to indicate why we are here. We are here to improve our ability to serve farmers and our economy as a whole. We are here to expand our vision as to our opportunities for service. Let's make the most of this occasion -- so that this Workshop will go down in our records as one of our best.

THE SCOPE OF FARMER COOPERATIVES--
PRESENT AND FUTURE *

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

You will recall that point 4 of Bushrod W. Allin's presidential address to the American Farm Economic Association last summer on "Relevant Farm Economics" was "Encourage Farmer Organization for Self-Help." This largely explains why we are here examining "The Scope of Farmer Cooperatives."

In his Benjamin Hibbard Memorial Lecture at the University of Wisconsin in March 1961, Henry A. Wallace said, "Cooperatives are good but they are not enough in days when most farmers' sales are to huge corporations and most of their purchases are directly or indirectly from great corporations." Just what did he mean?

Does this statement, which seems to impute a subordinate role to farmer cooperatives in meeting today's serious farm problems, reflect their full potentialities? Does it mirror a condition of farmer self-helplessness?

This paper, which considers the achievements of farmer cooperatives as a basis for assessing their present importance and projecting their role into the future, may help to answer these questions.

Farmer cooperatives are defined here as business organizations set up and democratically controlled by their members to perform at cost for themselves marketing, purchasing, or other needed business services. It should be recognized that a "cooperative association" is a distinctive form of business enterprise with some features and functions common to both corporations and partnerships. In fact, as most cooperatives are incorporated, we may think of them in general terms as simply a special type of business corporation serving those who are at the same time both owners and users of its services. Here we are confining our discussion to cooperative associations created for strictly business purposes, although, like other businesses, they may also have important social objectives. 1/

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* Presented at the American Farm Economic Association meetings, New York City, December 27, 1961. Reproduced from Journal of Farm Economics, Volume XLIV, No. 2, May 1962, pp. 476-488.

1/ It is appreciated that the term, "cooperative," is frequently used as an adjective to imply that individuals or groups are working together for a common end. The noun, as here used, refers to a form of business organization.

A Quick Look Backward

To understand the present position of farmer cooperatives, we must take a quick look into the past. Although they have a long history they did not become an important force in American agriculture before World War I.2/

By 1920 there were 7,400 farmer cooperatives doing a business volume of one and a quarter billion dollars. The number of memberships totaled 1,675,000, but many farmers belonged to more than one cooperative. Most of these cooperatives were very small and only a few were federated to form larger organizations. Outstanding among these were Sunkist Growers, Inc., then known as The California Fruit Growers Exchange.

The centralized form of commodity cooperative was then emerging from an incubation stage in California where specialty organizations of this type were demonstrating great possibilities. Dairy bargaining cooperatives were beginning to assume an important role in milk marketing in metropolitan areas. Such large specialized farm supply cooperative purchasing associations as the Eastern States Farmers' Exchange and the Cooperative Grange League Federation Exchange (the G.L.F.) were also taking shape. Up to this time some farm supplies had been handled as sidelines by marketing cooperatives, but no large specialized buying organizations had yet developed.

In 1920 Aaron Sapiro began his crusade to gain effective bargaining power for American farmers by encouraging the formation of centralized commodity marketing organizations. Known as pools, they sought with "iron-clad membership contracts" to gain control over supply and thus monopolistic power. 3/

Congress in 1922 facilitated the growth of marketing cooperatives by passage of the Capper-Volstead Act. It established the right of farmers to act together in cooperative associations, and it made clear that the formation and operation of cooperatives would not in itself be a violation of the anti-trust laws.

2/ Their emerging importance was recognized by Nourse, E.G., in his article, "The Econ. Philosophy of Cooperatives," American Econ. Review, Vol. XII, No. 4, Dec. 1922, pp. 571-597.

3/ See Knapp, Joseph G., The Hard Winter Wheat Pools--An Experiment in Agricultural Marketing Integration, 1933.

The Cooperative Marketing Act of 1926 gave farmer cooperatives further encouragement by directing the establishment of a division in the U.S. Department of Agriculture to carry on a program of research, advisory service, and educational work to assist farmers in the field of agricultural cooperation.

This was a time of cooperative experimentation and ferment. In 1922 the National Council of Farmer Cooperatives had been started, and in 1924 the American Institute of Cooperation was formed. Agricultural colleges were beginning to give more attention to cooperatives in their research projects and courses of study, and the Extension Service was actively promoting their formation.

In 1929 Congress made a breakthrough. It set up the Federal Farm Board "to promote the effective merchandising of agricultural commodities..... and to place agriculture on a basis of economic equality with other industry." The Board was instructed "to encourage the organization of producers into effective associations or corporations under their own control" and to aid "in preventing and controlling surplus in any agricultural commodity through orderly production and distribution." Surplus control for various products was to be effected largely through "stabilization corporations," set up by cooperatives handling specific commodities. A revolving fund of $500 million was authorized to carry out the provisions of the Act. This mechanism was soon to be tested by the drastic fall in commodity prices which followed the 1929 stock market crash.

A considerable cooperative advance had come by 1929-30. Twelve thousand marketing and purchasing cooperatives had been organized, and 3,100,000 members enrolled. The annual business of these cooperatives was $2.5 billion; yet the figures do not fully disclose the progress that had been made. Many more strong cooperatives of both federated and centralized types existed in 1929-30 than 10 years earlier. With the rapid mechanization and commercialization of farming, cooperative purchasing was becoming just as important as cooperative marketing.

The Great Depression intensified the need for farmers to cooperate. Among the many lessons they were learning was the realization that farmer cooperatives could not control production and regulate supplies, even with the substantial encouragement and financial assistance of the Federal Farm Board. Freed from the responsibility of surplus control by the Agricultural Adjustment Act of 1933, the cooperatives were again able to center their attention on providing efficient marketing and farm supply services. The formation of the banks for cooperatives under the Farm Credit Administration in 1933 gave cooperatives assurance of adequate capital funds for development, maintenance, and expansion. Likewise, establishment of the Rural Electrification Administration in 1935 provided technical assistance and funds for the stimulation of rural electric cooperatives.

The statistics for 1939-40 show an 11-percent decrease in number of marketing and purchasing cooperatives to 10,700, while memberships increased slightly to 3,200,000. Volume of business, reflecting the lower level of prices, fell 16 percent to $2.1 billion. But a change was taking place. Certain types of local cooperatives, such as the livestock shipping associations, that were no longer meeting an economic need, were being replaced by other forms of cooperative organization. The process of federation was gaining momentum and integration was becoming a significant factor in cooperative advancement.

With inflation and expansion brought on by World War II and its aftermath, cooperative volume quadrupled to $8.7 billion by 1949-50, and estimated memberships doubled to 6.5 million, though the number of cooperatives fell off by 6 percent to 10,035.

The 1950's brought improved operating performance, further consolidation, and substantial growth. With adverse conditions in farming, characterized by the words "cost-price-squeeze," many cooperatives reorganized to strengthen their operations. Emphasis was placed on management improvement, financial planning, membership education, director and personnel training, research, mechanization, integration, diversification, and other means of obtaining business efficiency.

Gradual conversion of the cooperative farm credit system to a large measure of farmer ownership gave considerable significance in gaining recognition for the cooperative form of organization as a means of serving farming needs. Of special interest in this connection is the fact that, under the Farm Credit Act of 1955, the banks for cooperatives have been moving steadily toward complete ownership by the cooperatives themselves.

Reflecting the consolidations to achieve stronger organizations, the number of farmer cooperatives in 1959-60 stood at 9,350, a decline of 7 percent from 1949-50. Even though farm population declined substantially, membership increased by more than 700,000 during the decade, while business volume grew by more than a third to $12 billion.4/ Thus while cooperatives have declined in number, they now have more members and a larger volume of business than they had in 1950. Farmers' ownership interest in farmer cooperatives of all kinds, including electric, credit, insurance, and other types of service cooperatives increased from $2 billion in 1950 to $4.29 billion in 1961. Marketing and purchasing associations rose from $1.1 billion to $2.2 billion.

4/ This was a significant expansion in view of the fact that the wholesale price index for all commodities rose only 16 percent from 1950 to 1960, while the wholesale price index for farm products declined by 10 percent.

This brief review shows the considerable progress made by farmer cooperatives during the last 40 years, and especially the last decade.

Farmer Cooperatives Today

Farmer cooperatives differ greatly in size and character. Some perform little more than a community assembling service. Others are big enough to be included in Fortune's list of 500 major industrial concerns. Most of the small associations are members of regional federations which cover States, parts of States, or several States.

An example of a large and widespread federation is the Consumers Cooperative Association, known as the C.C.A., with headquarters in Kansas City. More than 1,700 local associations, located in a dozen States, make up its membership. These locals, in turn, serve over 450,000 farmers. The C.C.A. was set up in 1930 to provide wholesale petroleum service for a few local farmer cooperatives. It now offers a fully integrated petroleum service through its own oil wells, refineries, pipelines, and transport equipment, and provides a broad range of other services. In 1960-61 the C.C.A. supplied its local associations with 40,278 cars of refined petroleum products, 298,656 tons of feed, and 484,396 tons of fertilizer. Its wholesale volume for 1960-61 reached $194 million and its net margins before income taxes amounted to $14.9 million. As of August 31, 1961, the ownership interest of its member associations was $112 million, and this represented about 80 percent of its total assets. Its investments in property, plant and equipment, after allowances for depreciation and depletion, amounted to $77 million.

The C.C.A. differs principally from other concerns of a non-cooperative character in that its net margins are distributed to its member associations in proportion to their use of its services, after payment of Federal income taxes on dividends on stock and on income derived from non-member business, and after payment of applicable State income taxes. However, this procedure is available to any enterprise that elects to operate on a comparable cost of service basis. 5/

Many regional federations are similar to the C.C.A. Some are primarily marketing or purchasing federations, but many perform both marketing and purchasing functions. Other regionals are centralized in form, with farmers the direct members. Such organizations supply all facilities and management, and, to a considerable extent, are vertically integrated to provide procurement, processing, transportation, wholesaling, or other essential services.

5/ For a more complete analysis of how cooperative and non-cooperative corporations differ, see my article, "Are Cooperatives Good Business?," Harvard Business Rev., Vol. 35, No. 1, Jan.-Feb. 1957, pp. 57-64.

Of growing importance are federations of regionals which provide services that can best be rendered by overhead organizations serving wide territories. These super-regionals knit both federated and centralized regionals together into cooperative systems of national import. For illustration, the C.C.A. holds membership in such super-regionals as the National Refinery Association which serves five regional petroleum-handling cooperatives in the Central States; the Central Farmers Fertilizer Company which serves 25 regionals from Coast to Coast; and National Cooperatives, Inc., which serves 24 supply regionals in the United States and 3 in Canada. Another well-known super-regional is United Cooperatives, Inc. It serves 31 farm supply regionals located throughout the United States, a number of which are also members of National Cooperatives, Inc.

From 1951-52 to 1958-59, the average membership per cooperative association increased from 723 to 783, or 8 per cent, while the average volume of business, not including interassociation volume, expanded from $924,000 to $1,211,000, or 31 percent. Average business per member increased from $1280 to $1545, or 21 percent.

Both locals and regionals are sharing in this expansion. The average business volume of the local cooperatives rose to $695,000 in 1958-59 from $532,000 in 1951-52 or 30 percent, although the number of locals declined by 6 percent. In the same period the average business volumes of the regionals increased from $6,339,000 to $7,332,000, 16 percent. Regionals increased during this period by 9 percent.

Great variation is found in the type and size of regionals. About 40 percent can be classified as bargaining associations. These are commonly used by producers of dairy products, eggs, sugar beets, and fruits and vegetables. They are set up as centralized organizations.

Sixty-five percent of the 450 regionals which carry on full business operations are centralized in form, or are combinations of centralized and federated associations. The remaining 35 percent are federated in type.

Regionals vary greatly in size. Volume of business of 13 regionals in the continental United States exceeds $100 million annually. Average volume for these 13 associations increased from $123 million in 1951-52 to $176 million in 1959-60, or 43 percent.

The following tabulation shows the number of regionals by size groupings in 1959-60 as compared with 1951-52:

	1959-60	1951-52	Percentage increase
$100 million or over	13	8	63
$50-99.9 million	31	24	29
$25-49.9 million	54	37	46
$10-24.9 million	103	87	18
Under $10 million	544	533	2
	745	689	8

While 98 regionals did a volume of business in excess of $25 million in 1959-60, only 69 were this large in 1951-52. Thus, there was a 42 percent increase in the number of regionals doing a business of over $25 million.

Although much growth in size of these cooperative organizations has come from mergers and acquisitions, more growth has been derived from internal strength, as was the case, primarily with C.C.A.

Leading farmer cooperatives, though substantial in size, are still relatively small compared with major noncooperative firms that deal in farm supplies or farm products. Standard Oil of New Jersey did a business of over $8 billion last year; International Harvester, $1.7 billion; and Swift & Company, $2.4 billion. These three concerns did as much business as all marketing and purchasing cooperatives combined. The sales of National Dairy Products -- $1.7 billion in 1960 -- were larger than the combined sales of all dairy cooperatives in 1950-60 excluding those that confined their operations to bargaining.

It is not possible here to examine the degree to which the larger marketing and purchasing cooperatives are keeping pace with the growth of their large corporate rivals.6/ However, an inspection of sales volumes for large cooperative and non-cooperative firms serving agriculture indicates that major farmer cooperatives seem to be holding their own; several have greatly improved their relative positions during the last 5 years.

Farmer cooperatives have been just about able to keep up with the growth of the economy during the past decade. Gross national product expanded by 46.5 percent from 1951 to 1959; gross volume of farmer cooperative business expanded by 45 percent--a good showing in view of the fact that "farm gross private product" represented a declining part of the gross national product.7/

It is perhaps more significant that the net volume of farm products handled by cooperatives at one or more stages in the marketing process was 26.9 percent of cash receipts from farm marketings in 1958, compared with 22.3 percent in 1950.

6/ See Mueller, Willard F. "A Comment on the F.T.C.'s Report on Mergers with Special Reference to Dairy Mergers," J. of Farm Econ., Vol. XXXIX, No. 1, Feb. 1957, pp. 140-152. See also Willard F. Mueller, "The Role of Mergers in the Growth of Agr. Coops.," Calif. Agri. Expt. Sta. Bul. 777, Feb. 1961, pp. 35-39.

7/ It was 7.1 percent in 1951 and 4.2 percent in 1959. See Econ. Report of the President, Jan. 1961, Table C-3, p. 130.

Extent of cooperative marketing for various farm products varies a good deal. This is shown by a 1958-59 comparison of volume of cooperative marketings with farmers' cash receipts for various agricultural products: Cotton, 26 percent; dairy, 65 percent; fruit and vegetable, 20 percent; grain, 24 percent; livestock products, 13 percent; poultry and eggs, 12 percent; rice, 60 percent; and tobacco, 17 percent.

There is also considerable variation in the degree to which cooperatives have developed in various parts of the Nation. In some States and areas cooperatives market fractions of certain products that are much higher than average. If the cooperative marketing volume in all States had represented the same proportion of cash receipts from farm marketings as it did in Minnesota, total United States cooperative volume for 1958-59 would have been about 70 percent greater.

These figures give a general measure of the extent of cooperative marketing. They do not disclose the range of services provided by cooperative marketing firms. Today many cooperatives take the product much further toward the consumer, and perform many more marketing functions, such as packaging and delivery, than they did a few years ago. In the United States, cooperatives produce 58 percent of the creamery butter, 23 percent of the American cheddar cheese, 7 percent of the cottage cheese, 74 percent of non-fat dry milk, 14 percent of whole dry milk, and 70 percent of dry buttermilk.8/

In 1958-59, farmers obtained 14.5 percent of all production supplies and equipment through their cooperatives, as compared with 11.9 percent in 1950-51. Farm machinery and building supplies, which represent large items in farmers' budgets, are handled only to a limited extent by farmer cooperatives. Among five basic supplies--feed, seed, fertilizer, petroleum, and insecticides--20.5 percent was obtained through cooperatives in 1958-59, 17.7 percent in 1950-51.

These figures measure the extent to which farmers obtain their supplies through farm supply cooperatives, but they do not indicate the degree of integration in these associations. A recent study shows, for example, that (1) petroleum wholesaling and refining cooperatives produced an eighth of the crude oil they refined; (2) wholesale cooperatives refined 85 percent of their wholesale volume of liquid fuels; and (3) retail cooperatives obtained 95 percent of their petroleum products through wholesale associations.9/

8/ Gessner, Anne L. "Integrated Dairy Operations Through Farmer Cooperatives," Farmer Coop. Serv., USDA Gen. Rpt. 60, 1959.

9/ Gessner, Anne L. and Mather, J. Warren. "Integrated Petroleum Operations Through Farmer Coops., 1950 and 1957." Farmer Coop. Serv., USDA Gen. Rpt. 58, 1959.

The Road Ahead

The immediate future of farmer cooperatives has largely been forecast by their past. They are moving in the direction of becoming large, strong, well-managed integrated systems of cooperative organizations which can provide farmers with many of the business services they require. This trend is accelerating and promises to become more pronounced in the years ahead.

It is not possible in the scope of this paper to analyze fully the economic and social situations which condition cooperative growth. Farms are getting larger and using more capital, and business competence among farmers in increasing. Thus, fewer, but larger, farms will be doing a larger volume of business. To serve such farmers, cooperatives of the future will need to be larger, better financed, and more efficiently organized and managed than those of the past. The environment in which cooperatives operate is also changing. Dealers in farm products other than cooperatives also are becoming fewer and larger, and they represent greater concentrations of buying power. Mass distribution agencies such as sppermarkets and chain stores buy on specification and are exacting in quality and quantity desired, and in time of delivery. To render the kinds of services these establishments require, cooperatives must be alert, flexible, and farsighted, and they must be able to develop more effective organizational structures than those of the past. The big question is: Will they be able to develop such structures rapidly enough to take full advantage of their opportunities to gain for farmers a stronger position in agricultural markets?

The following "observations," based on research and experience, may help us answer this question.10/

---Great strides are being made in extending the scope of cooperative organizations both laterally and vertically. This trend can be expected to increase at a more rapid pace because farmer cooperatives now have knowledge and experience on which to proceed. They are no longer severely limited by finances and technical knowledge. The barriers have been broken. Established cooperatives are gradually extending services into areas not now cooperatively served. This is closing so-called "cooperative deserts."

---Substantial growth is coming from internal strength through better organization and management, improved membership understanding, diversification of services, financial planning, and application of research results. Most cooperative growth up to this time has been of this character, which we may call earned growth. This kind of growth will be as important in the future as it has been in the past.

10/ Here I am using the term "observations" to convey the idea of "viewing or noting something, for some scientific or other special purpose."

---It is also significant that competition between cooperatives, which has long retarded cooperative progress, is steadily being submerged in the larger objective of providing farmers with the kind of services that they require. Past experience indicates that farmers draw together in cooperative organizations when they realize that it is necessary to do so. Conditions which confront farmers today are bringing home to them the realization they must have stronger organizations than in the past. This is causing farmers to demand of their cooperative managements that they submerge rivalries so as to build stronger organizations which can achieve larger ends.

---Since cooperatives must have fixed commitments from their members if they are to provide mass buyers with a dependable supply of uniform product we can anticipate greater use of marketing contracts. The value of such contracts has been demonstrated by many well-known cooperatives. It is now becoming clear that such instruments are essential in the effective cooperative marketing of many farm products.11/

---Stronger cooperatives, having control of an assured supply of dependable products through marketing contracts with their members, can provide a stable foundation for federated sales agencies. Their development will encourage the formation of more joint selling agencies serving cooperatives in regional, national, and foreign markets. Such newly-formed agencies as American Dairy Foods and the Producers Export Company indicate the trend.

---Experience is demonstrating that farmer cooperatives can be of much help in the administration of Government agricultural programs. The effectiveness of Federal milk orders is largely dependent on the operation of dairy cooperatives. The same is true for market orders for fruits and vegetables. As the market order programs move into new areas of application, greater reliance will be placed on cooperatives to assure their success. Stabilization and price support operations also require the use of cooperatives to give producers representation in the programs and to obtain their benefits. As the usefulness of cooperatives in governmental agricultural programs increases, their public importance will expand and gain for them increasing membership support. The problem of regulating supply to market needs has changed in character over the years. Today many cooperatives are in better position to accept responsibilities and cooperate with Government than they were in the days of the Federal Farm Board.

11/ See Mueller, W.F. and Tinley, J.M. "Membership Contracts of Agri. Coops. in Calif.," Calif. Agri. Expt. Sta. Bul. 760, March 1958.

--- Farmers have been steadily widening their experience in using the cooperative form of enterprise. Membership in rural electrification cooperatives and in credit and insurance associations greatly expands knowledge and understanding of cooperative principles and practices, and thus provides better informed and qualified members. Cooperatives are giving increased attention to training rural youth in how cooperatives work. This provides a good seedbed for future cooperative members and leaders.

---Farmers in increasing numbers are seeing the necessity of cooperation in the same way that local merchants see the advantages of joining wholesaling cooperatives to meet the competition of chain stores. They demand a high standard of performance, and this is bringing a steady improvement in cooperative operations. Business effectiveness, in turn, attracts additional farmer businessmen into the cooperative. Strong farmers, in the economic sense, both make and require strong cooperatives.

---Another factor favorable to the cooperative form of organization is farmers' concern with the trend toward bigness in our society, and especially the growth of vertical integration by contract farming. Many are coming to look on cooperatives as a way in which they, as individuals, can protect themselves and keep some sense of individuality, in a world of large corporate organizations.12/

---Mass buying organizations are showing willingness to use the services of cooperatives if they can obtain from them the products and type of services they require. They may even give a certain amount of encouragement to the formation of cooperatives as a means of assuring adequate supplies of product having desired quality. This presents a challenge to cooperative leadership to meet these needs more than halfway.

---As recognized by Mr. Wallace, in the sentence quoted at the beginning of this paper, one of the urgent problems of farmers is to develop bargaining power. Joined in large and efficient cooperatives, they can get the full value of their products through skillful adjustment of supplies to market and through effective merchandising. While many cooperatives now enjoy a high degree of bargaining power, others are still too small to have significant market influence. There is no reason why farmers themselves cannot build more strong cooperatives so as to achieve effective bargaining power; progress toward this goal is well under way.13/

12/ See Mehren, George L. "Agri. Coops.--Foundation and Forecast," American Cooperation, 1960, American Institute of Cooperation, pp. 12-24.

13/ See Knapp, Joseph G. "Developing Farmer Bargaining Power Through Marketing Coops.," talk at Annual Meeting of National Council of Farmer Coops., Atlanta, Ga., Jan. 5, 1960. (Available from author.)

---Bargaining associations provide farmers with a simple means through which they can mobilize their economic power. There are numerous situations favorable to the development of such organizations which enable farmers to negotiate as a group with processing firms or other large buyers. Many bargaining associations are transitional in character in that they find it desirable to undertake the processing function to establish full marketing control over their products. In other words, they can be thrown into the breach until stronger organizations can be formed.14/

---More and more cooperatives are providing a full line of marketing, purchasing, and other services to do everything possible to help the farm as a business enterprise. Soon we shall see more development along this line, to meet the farmer's demand for one-stop service. Many cooperatives now provide credit, insurance, warehousing, delivery, pre-packing, feed-grinding, fertilizer-spreading, field-harvesting, grove-care, or other on-the-farm technical services. Many are giving production or market advice, a few are beginning to provide a complete farm management advisory service.

---Business records indicate that cooperatives are steadily increasing in operating efficiency. We can expect an acceleration of this trend as a result of management training programs, better personnel administration, more emphasis on membership education, increased financial planning, improved use of transportation facilities, better accounting and budgeting procedures, and more widespread use of research. Organization structures are being revamped to achieve better centralization of control with decentralization of operation. Facilities and equipment are being greatly improved to reduce labor costs. Automatic data processing promises to be of great help to cooperatives in membership administration and in credit, inventory, and other controls. Cooperatives can be as efficiently operated as any other type of business organization.

---The Rural Areas Development Program, with its emphasis on the utilization of local resources and decentralization of industry, is giving much encouragement to the development of cooperatives for local processing of livestock and other farm products. This can have far-reaching effects.15/

14/ See Knapp, Joseph G. "Bargaining Coops.: Their Place in Agri. Tomorrow," American Cooperation, 1959, American Institute of Cooperation, pp. 184-194.

15/ See Wilkins, Paul C., "Co-ops Can Join in Renewed Push on RAD," News for Farmer Coops.,Dec. 1961. (Reprint No. 22), Farmer Coop. Serv., USDA.

---The growing interest in cooperatives among underdeveloped nations is bringing home to many farmers, and to other Americans, that cooperatives are important assets--that they provide a living, working example of democratic principles in action. If they are recognized as important for other countries, people may come to see more clearly their value at home.

---Many people have been prejudiced against farmer cooperatives by widespread allegations and insinuations that they enable farmers to enjoy unfair tax benefits. At the present time revision of the Federal income tax law related to farmer cooperatives is under consideration, and this should set to rest these charges. It is believed that any new income tax legislation will continue to fully recognize the non-profit character of the cooperative form of organization and will not penalize cooperatives through complex administrative procedures. Such legislation could give encouragement to the expansion of cooperative enterprise through helping the public understand their economic nature and their position under the tax laws, and thus help gain for them the public support which their objectives and operations merit.

---The Federal Government has long given encouragement to agricultural cooperation. But since Farm Board days, this encouragement has been more passive than positive. This last year has seen a resurgence of interest in agricultural cooperation. Well-publicized expressions on the part of the President, the Secretary of Agriculture, and other high Government officials make clear that they believe this form of business organization should be vigorously encouraged. This positive attitude is already having a highly stimulating effect on the development of farmer cooperatives.

---One aspect of our American farmer cooperatives needs special mention. It is their importance in preserving our family farm type of agriculture. Cooperatives provide a system of organization for agriculture which helps, and does not penalize, the individual operator. Cooperatives retain decision power on the farm and this encourages individual initiative and creativity. Compared with Russia, our agriculture is outstandingly successful. Why? Is it due to our superior soil and climate? Or is it due to our system of agricultural organization, which calls for a high degree of response from farm people? If the latter is true---and there is much evidence to support it---the importance of cooperatives, which encourage in farmers the spirit of freedom, independence, and responsibility, cannot be ignored. Broad recognition of this fact will do much to gain stronger public support of cooperatives.

In this paper I have stressed a number of trends and developments that are favorable to the progress of farmer cooperatives. Whether these advantages are realized will depend largely upon the ability of cooperatives to find and develop imaginative and courageous leadership, capable of building and conducting large business operations in behalf of those served. "Without vision the people perish." This is as true for cooperatives as for any other democratic form of organization.

What, then, are the prospects for cooperative growth in the next 10 years? In view of recent progress and current trends, it would seem reasonable to expect farmer cooperatives to expand at least as rapidly in the next 10 years as in the 10 years past--by about 50 percent--but this estimate may be on the low side. With public recognition and gifted leadership, a great surge forward is possible; it could double results in the physical volume of commodities handled. This would give farmers a substantial increase in countervailing power.

In this paper I have taken a positive position because I believe that opportunities for, and probabilities of, cooperative advancement are very substantial. In considering farmer cooperative potentials the negative has been given entirely too much emphasis. It is time for a change.16/

16/ In support of this view, Sidney Hoos of the Univ. of Calif. recently raised this pertinent question, "Why cannot, or should not, agriculture in the 1960's be offensive in its organizational changes and in structural innovations?" See his paper, Market Organization and Structure--Problems and Opportunities for the 1960's, Ext. Marketing Workshop, Salt Lake City, Utah, Oct. 10-13, 1961. (Available from the author.)

DIRECTIONAL SIGNALS 1/

By Joseph G. Knapp, Administrator
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Directional signals cannot be ignored -- without a wreck.

As our social and economic environment grows more complex, directional signals of all kinds become more necessary.

When we think of directional signals we generally think of the red and green traffic "stop" and "go" lights, or the arrows that direct us to go left or right. We have come to take these lights as necessary if we are to use automobiles.

It wasn't too long ago when we informed people when we were going to turn right or left in an automobile by using hand signals. Now we use lights for this purpose, and we are coming to use them almost automatically. We have learned that we must learn to live with such signals.

Cooperatives must learn to live with certain directional signals too -- such as "changes in farming methods" and "size of farms," "increasing urbanization," "growth of specialization," "new forms of competition" or "new governmental programs." Some of these signals are not too clear and we must learn to understand them and adapt our organizations to them.

We also give directional signals as well as receive them. This is true if we are driving a car. It's also true if we are operating a cooperative. What we do in managing cooperatives will give off directional signals to farmers, to other businesses, to the public.

It's important that we understand directional signals given out by economic forces and by other institutions or businesses serving farmers. These help to determine our actions. But I am here most concerned with the directional signals that we have some control over -- the ones we give out ourselves.

What kind of an organization are you making here in Pennsylvania? What kind of an organization do you want to have? What kind of an image of it do you want people to have?

Your theme for this meeting is "Unity is our opportunity." This would seem to indicate that you haven't yet achieved the degree of unity that you desire. The directional signal is clear. You wish to

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1/ Notes for talk given at Pennsylvania Farm Bureau Semi-Annual Manager's Conference, Boiling Springs, Pennsylvania, February 9, 1962.

achieve greater unity between your State organization and the county affiliated units that are served.

How can this be done? What does it require? Is it a matter of organizational structure, of attitudes, of management procedures? Let us ask this question. Is your form of organization adapted to the changing needs of farmers in your State?

There are those who favor radical solutions for every problem. Such people might hold that your organization should be revamped more on a centralized basis to provide greater flexibility in serving local communities. There is much logic in favor of centralized type organizations, and we have many cooperatives organized on this pattern.

However, the question may be raised -- Do you need to go all of the way? Can an organization retain the advantages of federation while also achieving enough centralization to meet needs for coordination and effective performance?

Here I think of our experience as a nation. We started out as a loose grouping of states under the Articles of Confederation. We found that this system would not work if we were to defend the form of govenment achieved by the revolution that gave us our independence. Without the Constitution which set up our federal union in 1789 we would not have achieved full status as a nation.

Yet in 1789 we did not need a strongly centralized government. We needed a central government that would give direction to and provide services for the states. As we now phrase it, we needed a more perfect union.

However, all of our problems were not settled by the adoption of the federal constitution. For a period of years it was touch and go as to how strong our federal union was to be. Gradually our Supreme Court interpreted it to give the federal government increasing powers. This was not enough. South Carolina endeavored without success to establish the principle of nullification, and the Civil War had to be fought to preserve the Union.

Even the Civil War did not quench the believers in States rights, and we have continued to modify our system of government to gain the advantages of centralization for those things that must be handled by a strong national government while reserving to the States functions that can best be handled nearer home by the people themselves.

Our system of govenment is not perfect -- and we are continually changing it as conditions demand. I heard a political theorist recently claim that population shifts would eventually outmode the States in favor of regional groupings based upon urban populations. This may or may not

come about. The point I am making is that centralization and federation are both vital principles of organization -- in government or in cooperatives.

Most centralized cooperatives have found it desirable to use some of the principles of federation. On the other hand, a federation is of little importance unless it is held together by strong centralizing principles and forces. I think the history of our country, as briefly outlined, suggests that government or other forms of organizations must adapt themselves to change, using principles both of centralization and federation.

If we had not found ways to centralize our government and keep it centralized we would not be a united-cohesive nation today. On the other hand, if we had over-centralized our government it would not have had the internal strength to survive. There is much to the old adage that government or administration should be kept as close as possible to the people involved.

There is an interesting examination of the advantages of decentralization in large corporations by Ralph Cordiner of the General Electric Company, in his little book, New Frontiers for Professional Managers.

While "decentralization" and "federalism" are not exactly the same thing, the words have much in common. Cordiner is concerned with how a centralized form of organization can be decentralized to achieve the "human touch." The problem of a federation, on the other hand, is how to build a strong enough union to obtain the necessary advantages of centralization.

A few years ago I examined a number of large regional cooperatives. About half were of the centralized type and about half were federated. I found that there was not a great deal of difference in the achievement records of the two forms of organization. Some of the centralized organizations were highly efficient, while the same was true for some of the federations. This fact was clear, however. The strong centralized organizations had decentralized many functions, while the strong federations had centralized many functions.

The problem of developing the best form of organization to meet a given situation is not easy but there is broad agreement on the need for organizational arrangements that "will facilitate the joining of human efforts." We call this cooperation.

I would like here to refer you to an article entitled "Toward a More Effective Enterprise," by Robert L. Katz, in the September-October, 1960, Harvard Business Review. Katz is concerned with how we can make our business organizations more responsive to the employees' needs for self-respect and feeling of purpose. It seems to me that cooperatives must move in this direction -- for without satisfied employees, how can we build satisfied members?

I would also like to mention an article by Robert B. Young, "Keys to Corporate Growth," in the November-December, 1961 issue of the Harvard Business Review. Young has studied the growth records of a large number of major business concerns. He comes to the conclusion that growth comes to organizations that are on the lookout for opportunities and who are ready for them. I think this idea has application to cooperatives. Many cooperatives are not alert to their opportunities and are not ready to take advantage of them. This is why cooperatives must become more research-minded, for research is the key to new opportunities.

If we are to build more unified cooperative organizations we will also need to give more attention to the processes of communication within cooperatives. Many of you are aware of the study that we recently made of one of your associations, in cooperation with the Pennsylvania State University. I would like to call your attention to our report on this study, entitled, "Exploring Communication Processes in a Farmer Cooperative." It seems to me that it gives off some good directional signals that you might take into consideration.

In this talk I have roamed around a lot and it's been hard for me to keep in mind my directional signals. I have been concerned with bringing home to you that you have great opportunities for further achievement through the modification and strengthening of your present federated form of organization. I believe in getting the utmost efficiency out of what one has and I believe that you have never let out your full potential power.

We are living in a time of uncertainty and rapid change -- but generally changes do not come without a warning. If we are alert we can get ready for change and take advantage of it.1/ Therefore, we must watch for the directional signals that indicate how we must proceed -- and we must see that we give others directional signals so that they will know what to expect from us.

A year ago I set forth as follows what I considered the essential characteristics of dynamic cooperatives:

* They have firmly established and well defined principles and objectives.

* They have well informed, participating members.

* They have well qualified and highly competent boards of directors.

* They have alert, aggressive and capable managers.

1/ I have expanded on this idea in a talk entitled, "The Challenge of Change," published in American Cooperation, 1957.

* They have enthusiastic and interested personnel -- with high morale.

* They are well organized to do all the work they undertake.

* They know where they are going through carefully laid plans.

* They are adequately financed to meet new opportunities as they arise.

* They have excellent accounting systems and records.

* They employ research to know how best to operate.

* They enjoy fine relations with other business establishments and the public.

* They cooperate to the utmost with other cooperatives on mutual problems.

* They take on new jobs -- and don't stay in ruts.

* They have sources of inner strength and are not easily stopped.

Cooperatives that meet these standards are giving off directional signals that others may well heed.

WHAT FARMER COOPERATIVES CAN DO ABOUT CHANGES AND PROBLEMS 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
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I would like to change somewhat the emphasis of this talk so that the title will read: "What Cooperatives Must Do About Changes and Problems". I believe we should think more in terms of what cooperatives must do about changes and problems. They can do what they must do.

The problem of many farmer cooperatives is to know what they must do. If they can find this out, they will be able to meet changes head-on.

One thing that cooperatives must do to meet changes is to develop member relations programs that will keep the active interest and support of farm people. Too many cooperatives do not have a real live membership relations program -- because the operating program isn't realistic. This means that membership in such an organization does not have any deep significance. A real live membership program must be based on a real live operating program to give members pride in their organization. A combined alert operating program and a vital membership program will keep members active in its support. It follows that a membership of this type will be willing to provide the necessary membership capital.

As Lincoln said: "You can't fool all of the people all of the time." To adapt this to cooperatives, I would say "you can't fool all of the members all of the time either." They know whether they have an up-and-coming organization.

Who is responsible for making changes in organizations? Who is responsible for leadership? I believe that this function must be, to a considerable extent, vested in the manager as the head of the executive group. We pay managers to lead. We expect them to lead within the areas delegated by the board of directors. We want them to run an organization the way it should be operated. We must give managers a chance to lead and hold them responsible for leadership.2/

1/ Talk for Cooperative Conference, sponsored by Florida Council of Farmer Cooperatives and Agricultural Extension Service, University of Florida, Gainesville, Florida, June 18, 1962.

2/ See R.A. Gordon, Business Leadership in the Large Corporation, Brookings Institution, 1945. Gordon concluded: "Efficient business leadership in the large corporation must depend on an able, dynamic chief executive, supported by a competent staff adequately organized and directed. The board's participation in decision-making should consist of advice, not interference.", p. 351.

A strong board of directors is indispensable if you are going to meet changes and problems satisfactorily, for management policy is the board's responsibility and the manager needs the board's guidance and direction. Therefore, cooperative members must be sure that they are represented by directors who are forward-minded and progressive. Good management implies that a cooperative will have both a competent, non-rubber-stamp board of directors and an able, independent manager responsible to the board. Good directors will insure having an able manager.

We must also examine how the organization is set up to meet changes. Is it adaptable to new conditions? Is it flexible? Or is it as out of date as a horse and buggy?

What kind of an organizational structure do you need to function best in the environment that you have? Should your organization change from a centralized to a decentralized system, or vice versa? Should you modify its structure, whether centralized or federated? Do you have built-in inefficiencies?

I have watched many cooperatives meet this problem of changing organizational structure. The Cooperative G.L.F. Exchange is a good illustration of how this has been done, for it has gone through several reorganizations in the past ten years in its attempt to keep the organization in line with the times. The G.L.F. is now a much stronger organization than it would have been without this continuing revision of its structure and methods.

Cooperation must be a sturdy form of business enterprise. Otherwise, how could so many poorly organized and poorly operated cooperatives continue to exist. However, these marginal cooperatives are not making progress and unless they make the necessary corrections, many are bound to fail.

Much of the variation in farmer cooperative efficiency is excessive. While some are doing a superb job, many just manage to get by. We need to get more of the weak ones into the strong class.

What are the standards for a first-class cooperative? You can list them as well as I. A first-class cooperative will have a good plan of organization, good management, good accounting records, good facilities, good employee morale, good financial structure, good membership relations, good public relations, and sound progressive operating policies.

But what do we mean by these things? How do we get them? Some organizations have found a way. Others seem unable to obtain them.

I think that those interested in the success of their cooperative should take a critical look to see how it is doing. Instead of letting things slide, why not take a more positive attitude? Why not try to figure out how to succeed rather than merely how to get by? Cooperative members, directors, and managers should ask themselves, "What are our problems? Are we meeting them? Are we efficient? How can we make more progress?"

I would like to see more cooperatives plan to meet changes before they have to meet them.

I recently read an American Management research report on "How Companies Plan", by Stuart Thompson. It's an eye-opening document. After studying this report, I can't understand why any organization ignores the importance of planning. Why do companies plan? For two good reasons: To survive, and to grow or succeed.

Planning is not wishful thinking. It isn't just setting up goals. It's trying to work out a way of meeting problems in time. Planning for any contingency -- for changes that may leave your organization "high and dry" -- this is the kind of planning that is really important. It is this kind of planning that is important today when the changes are not as predictable as they have been in the past.

Moreover, planning does not ignore the necessity of doing a good job in the present. When you are a child, you can't put all of your emphasis on what you are going to do when you grow up. You must make the best of your present opportunities and circumstances if you are to mature in a healthy way.

Farmer cooperatives are in a period of transition. We need new types of cooperatives to serve the needs of new types of farm enterprises. In 1957 a group of cooperative information specialists at the American Institute of Cooperation tried to figure out what kind of information services cooperatives would need if there were only 500,000 commercial farmers. This seemed more fantastic five years ago than it does now.

You have some real problems on the horizon here in Florida. I understand that you have the biggest crop of oranges to handle in your history and that your plantings indicate that there are larger crops to come. What plans do you have to cope with this problem? You can't escape it. Are you organized to meet it? Somebody is going to get hurt unless some way is found to soften the blow through better administration of supply so as to provide consumers with quality products reasonably priced and at the same time obtain maximum returns for growers under prevailing market conditions.

Why has this problem arisen? Why isn't there a closer adjustment of prospective supply to prospective demand? In the past, natural disasters have reduced citrus supplies just when the situation became serious. Can you rely on such disasters to control production? This doesn't strike me as a very good solution. Shouldn't it be possible for the Florida citrus industry to regulate itself to a greater extent than it has in the past?

If you wish to leave supply and demand to perform the regulatory function without help -- well and good. But if you do this, you will need to learn how to live in lean years. Cooperatives can't repeal the law of supply and demand, but I believe that they can do something both to plan supply and to plan demand. Cooperatives can help strengthen demand by advertising and in other ways and they can help adjust supply to the market so as to better meet consumer and producer needs.

Before coming down here I examined the Proceedings of your Workshop Conference of last year. This report impressed me as indicating that you are beginning to take a new approach to your problems. Conferences such as this can have a stimulative effect when they are geared to our real needs. They keep us thinking. We learn from others and get our sights raised as to what might or can be accomplished.

I was especially interested in Maxey Love's paper last year on "Strengthening Florida Co-ops". He asked this question: "To what extent does the cooperative you represent control the tools for attaining for your members satisfactory sales, profits, and income?" He concluded with these words:

> "In summary we can see that cooperatives have been used to a considerable extent by Florida farmers over the past 50 years. Many of the cooperatives organized during the period operated for only a short period of time, and many died being born. Many that did operate for several years successfully later became defunct as a result of the changing economic conditions in the area in which they were operating. However, not all have been failures. Some have continued to operate for many years and are now large and successful business enterprises. Many of you here today represent cooperatives that date back to the early 1900's, and began as small businesses but have expanded into large and sound business firms.

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"In most commodity groups, it appears that if associations are to grow and become strong, they must be able to handle large volumes of supplies and commodities, which results in the ability to reduce cost and gain a stronger financial foundation. It is these associations that can attract superior management, and react more quickly to changing conditions, than the small, less efficient association.

.....

"However, farmers must not forget, that for cooperatives to serve farmers, farmers must serve their cooperatives. They must assume a sense of responsibility toward their cooperative, and they must support them with needed capital. As directors or voting members, they must see that competent management and efficient operations are maintained."

In some respects your Florida cooperative progress during the past decade has been impressive. Our records show that while the number of your marketing and purchasing associations in 1959-60 was about the same as in 1950-51 the volume of business of these associations expanded from $107 million in 1950-51, to $276 million in 1959-60.

Moreover, the number of memberships in these cooperatives expanded from 16,505 in 1950-51 to 39,695 in 1959-60. While you can be proud of this degree of progress, it affords no basis for complacency. In terms of your needs and opportunities, this growth was far too small.

One of the problems of change is that frequently we can't believe or accept it even when we see it coming. People were so sure that man couldn't fly that newspapers refused to print stories of early flights by the Wright brothers. It's difficult to envisage the possibilities of change. We become so accustomed to doing things in a certain way that we can't imagine how they could be done differently. We can't conceptualize the future and plan accordingly. The cooperative that grows will have leaders who are able to perceive the future before, or better than, others do.

We are well into a new technological revolution and we have seen enough of it to know what it is like. We may even imagine where it will lead us in the future although we may not like what we see.

As we look into the future we may well ask ourselves these questions: Are farmer cooperatives going to become an obsolescent form of business enterprise? Will some other type of organization be better able to cope with the farm business problems of the future? If your answer is "yes", what type of business organization can you envisage serving farmers in the years ahead?

It is the general judgment of agricultural economists that agriculture is not going to lose its family farm base, although they believe farms may become fewer and larger and that more emphasis than ever will be placed upon off-farm commercial services. As long as this is so, there will be many functions where farmers need cooperatives to help them. As long as there are any advantages in working together we may expect that there will be cooperatives.

As farming operations become larger and more technical we can be sure that cooperatives will place greater emphasis upon achieving economic efficiency. The problems in dealing with large farmers are naturally different from those in dealing with small farmers. Cooperatives will also be dealing with more competent and demanding members because larger farms will require better trained management to operate them. In the future the type of business transacted by cooperatives can be expected to become more highly specialized as farming itself becomes more specialized.

We know something of the kind of cooperatives that will be needed in the future. These organizations will have to deal with large volumes of business. They will require adequate funds to carry on this business. Cooperatives that serve large farmers must, in turn, be large organizations to achieve full economies of scale. This means that we will have to think in terms of larger organizations and in terms of the type of operating policies and services that large-volume farmers will require.

The problem is how can we develop such farmer cooperatives. We will have to look at this problem from the standpoint of management. What kind of management will we need to help us create and operate the organizations needed?

In the past decade, we have made great progress in establishing the idea that cooperatives are a permanent and efficient form of business organization. I can remember when this was not true, when many questioned the business competence of cooperative organizations. However, over the years, standards of management, accounting, and fiscal management, have greatly improved so that farmers now have fully as much confidence in the cooperative form of business enterprise as in any other.

Cooperatives are needed if we are going to maintain an independent type of agriculture. Farmers must understand this and realize that cooperatives are an essential part of a free competitive enterprise type of economy. Farmers must give their support to cooperatives in order to get the full benefit of their operation. They can't expect a cooperative to succeed unless they are willing to help it succeed.

Cooperatives must learn to face up to changes. They must learn how to turn over a new leaf. They must learn how to identify problems involved in trends. They must plan ahead in terms of what will be needed. Much is written about planning, but very little is really done along this line. Take, for example, the question of management succession. It is generally agreed that cooperative executives should have understudies who are trained to take over these jobs. And yet, time after time, situations develop where a key man is lost and an organization flounders until it can get the right man in as a replacement. Too frequently, much of the know-how with regard to an organization is kept bottled up so that if a manager dies suddently or leaves, the new manager is put in a very precarious and difficult situation.

Take, also, the problem of training personnel. How much emphasis do we put on training? Do we really have programs that provide for up and coming employees? Also, how about membership? We hear many complaints about members and their lack of loyalty. Do we criticize those who should be responsible for the weakness of membership understanding -- the manager and the directors? Does your cooperative have an educational policy that will train and educate members? As we look ahead, the payoff is not going to be in operating efficiency alone. Cooperatives must also gain acceptance as the best method of doing agricultural business. A well-informed and participating membership is essential to this objective.

One weakness of cooperatives is in the area of communications, or, we might say, in the sharing of information so that the various parts of an organization can dovetail together. I think the kind of cooperative we are going to have in the future will place more emphasis on written and visual material. Person to person contact will always be important, but as organizations cover wider territories they are going to have to use every possible means to keep members in close touch with matters of concern to them. I found out as a young man, managing a truck farm in Colorado, that you could do a lot of selling with a well-designed post card.

How can we be sure that changes will not upset any plan that is based upon certain assumptions -- no matter how good. Planning may help us develop alternative solutions to given problems -- but the problem itself may change. This doesn't mean that planning is not necessary. Rather it means that planning itself must be adaptable to change.

I recall talking with a manager of a large fertilizer-handling cooperative a few years ago. This cooperative had just completed a new fertilizer plant that was already obsolete because of a new research discovery. It was cheaper to take the loss on the new plant than to operate it. All that I am saying is that planning does not give sure protection against changes that may come in the future.

Obviously, if you have a plan built on certain assumptions, you must be in position to recast it in the light of rapid changes that make it necessary to change the assumptions.

How many cooperatives were alert to the rapid spread of contract-farming integration in the late fifties? At least few planned to meet it.

There is just as much danger of over-planning as under-planning. While we must be alert to future contingencies and be in position to meet them -- we can't provide an airtight system to meet all of them.

The important thing is to have an organization conditioned to be flexible and on its toes so that it can quickly adapt to needs as they arise.

Long-range assumptions call for doing something about them now. Does your current budget take into account your long-range goals? Say, for example, the trend is for farmers of a certain type to have larger operations. If you are going to adapt your organization to this fact -- when do you begin to do so? Now -- or next year -- or when?

Or, say you agree with the general statement that cooperatives should be merged to form larger and more efficient units. When do you think these mergers should come? Now, or later? Tomorrow -- your cooperative may have little of value to merge.

In looking forward to the uncertainties of change, it is good to realize that we have been able to make many changes in the past.

The changes that lie ahead probably will be no greater than those you have grappled with in the recent past. Not only that, we have been through so many changes so rapidly that we are better conditioned to meet change. Today we have much stronger cooperatives than in the past and they are better equipped with manpower and finances to make necessary changes than they were say ten years ago. When I look back I am impressed with how well certain cooperatives have been able to adapt to change. These show us what can be done. We should follow their example.

One area where we have moved rapidly forward is in management. In general, there has been much improvement in the quality -- or the standards -- of cooperative managerial employees, but we still have a long way to go.

Likewise, cooperatives have made substantial progress in improving the performance of boards of directors as an important part of the management team. We expect more from directors than we did a number of years ago. We must, for the job of being a director has increased in complexity. Still, there is room for improvement.

We are doing a better job in member relations than we did before 1950. Members are getting more information and having more opportunities to participate. Membership is coming to mean more than in the past.

The concept of cooperation now emphasizes the business job being done. We now know that cooperatives will stand or fall largely on their capacity to deliver benefits to those who are served. The pace has grown swifter and we don't expect blind loyalty to keep members hitched to their cooperative. To a large extent, loyalty must be earned by cooperative performance, and by members having an understanding of potential advantages which will come from their support.

There have been many changes in cooperatives and I expect many more. Many cooperatives have been forced to merge, and this process will no doubt continue. The result will be fewer but stronger cooperatives. At times, this can be a painful process, but if it is bound to come, we may as well anticipate it and get on with the job. We can't fight the future.

In this talk I have been most concerned with the problem of how we can overcome apathy -- which is the barrier to change. I have made these points:

1. Changes are facts that cooperatives must learn to live with.
2. Cooperatives must constantly change their structures and methods to meet changes.
3. The future of farmer cooperatives is bright if they recognize that changes imply opportunities for those able to take advantage of them.

Cooperatives have three choices with regard to change.

1. They can do nothing. Result, failure.
2. They can follow the leader. Result, uncertain.
3. They can plan for and adjust to it. Result, probably success.

THE CONTRIBUTION OF FARM COOPERATIVES TO AGRICULTURAL WELLBEING 1/

By Joseph G. Knapp, Administrator
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Cooperatives a Normal Part of Free Enterprise System.

Opponents of agricultural cooperatives have endeavored to lodge in the minds of the public by all the arts of propaganda that cooperatives are not a normal part of the American system of free enterprise. Such propaganda often falls on fertile ground because the cooperative side of the story is not adequately known. In fact, supporters of cooperatives have too frequently permitted themselves to be placed on the defensive, in which they spend their energies in meeting sniping attacks, while what is needed is a broad constructive presentation of the great contributions which American cooperatives make to agricultural wellbeing and the preservation of the kind of America that we call the free enterprise system.

Those of us who believe in cooperatives must be able to persuade others that our belief in cooperatives is based on sound thinking for the common good. On the basis of some thirty years of experience working with farmer cooperatives of all types in all parts of America I maintain that there is no influence more healthy to the preservation of our American heritage than agricultural cooperatives.

What is the American heritage? I believe it is a deep belief in human freedom and fair play, a tolerance for the opinions of others, a willingness to work together for common objectives, a respect for private property and the rights of others. These thoughts are most beautifully expressed in the famous passage of our Declaration of Independence, "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with inalienable rights, that among these are life, liberty and the pursuit of happiness."

I assert with confidence that farmer cooperatives contribute to the preservation of an America which cherishes these truths. Farmer cooperatives contribute to the material and spiritual prosperity of agriculture as well as to the total national economy. Farmer cooperatives, both large and small, are simply organizations of individual farmers which carry on essential functions needed by our farmers and by our society as a whole. Farmer cooperatives enjoy no special privileges or favors denied by law to any other group or organization which may elect to accept the same restrictions that are self-imposed by the members of cooperatives.

1/ Address given at the Eighteenth Annual Meeting of the Washington State Council of Farmer Cooperatives, New Washington Hotel, Seattle, Washington, May 8, 1954 as revised July 1962.

On the other hand, I do not assert that cooperatives are perfect -- for they are man-made institutions. They are like all democratic organizations -- they have their strengths and weaknesses. All that I am saying is that cooperatives should be given a fair deal at the bar of public opinion. If they are -- and the extent to which they are depends upon the ability of cooperatives to present their position faithfully and effectively -- I have no doubt of the long-time future of these enterprises.

I heard a respected British economist -- who is an outright critic of the philosophy of the welfare State -- maintain that cooperatives should be encouraged as a means of fostering and preserving competition in economic life.

"Tax Dodgers" -- a Smoke Screen

This charge that cooperatives do not pay taxes is a smoke screen to confuse the unwary. It is a hard charge to combat for it sets up a prejudice that can only be met by a knowledge of the true facts. No one respects those who do not pay their taxes. The fact that cooperatives pay taxes on a different basis -- because they are organized in accordance with law on different principles-- is not admitted by the opponents of cooperatives. If they admitted this one fact their whole propaganda edifice would fall. There is only one thing that will satisfy the opponents of cooperatives -- the emasculation of cooperatives by forcing them to operate like all other corporations. If they could accomplish this end -- no one would be gainer, and farmers and the general public would be the losers. It would be a sad day in America if everyone had to operate a business in exactly the same way -- if people themselves couldn't do things cooperatively which they wish to have done. Cooperatives ask no special favors that they deny to others and they see no reason why they should be denied by law the right not to make a profit if they prefer to do business on a non-profit-making basis.

Let us turn to the question -- how do farmer cooperatives contribute to agricultural wellbeing?

Provision of an Efficient Method of Organization

The object of a cooperative marketing or purchasing association is to help farmers improve the efficiency of their farming operations. Farmers join cooperatives in order to get the kinds of supplies they want at lowest possible prices or to get the best possible returns in the marketing of their products.

The logic of cooperative operations lies in the fact that many can do together what one could not do for himself. Cooperatives simply enable farmers to get for themselves the advantages of large-scale organizations. Without cooperatives farmers would be dependent upon the services otherwise available. If they were not satisfied they would have little recourse -- unless we assume perfect competition which always assured them of satisfactory service. They would have no way of injecting competition into the market as they now do.

The record of the past does not indicate that farmers can rely on the perfection of the market place. Many farmers know from experience how their cooperatives have lowered distributive margins and broken many monopoly practices. They know that cooperatives in many instances have forced the competitive pace to their advantage as members -- as well as to the advantage of non-members.

The economic justification for farmers' cooperatives is that they meet economic needs and save farmers money. Farmers join and support cooperatives because it is good business for them to do so. By combining the volume of many farmers, cooperatives can economically market farm products for them or purchase their supplies on an efficient cost basis.

Cooperative marketing associations provide the type of marketing or purchasing services which farmers require. These organizations are controlled and directed by the farmers themselves who know how they wish to be served. Their organizations naturally must be respectful of their wishes for they are the bosses.

Help on Farm Management Problems

As I have observed cooperatives over the years, I have been impressed with the help cooperatives have given farmers on problems of farm management. This isn't strange when one realizes how important are the off-farm services that a cooperative can provide. How well a man farms often depends upon his source of supplies and the knowledge of how to use supplies and upon his ability to sell his crops at good prices. In fact, if there are good cooperatives around from which he can get advice as well as the type of service needed a man can get a good share of his farm management job done for him and done efficiently and with reasonable cost.

Assistance on Surplus Control

One of the recurring problems of farmers is over-production. We know that cooperatives cannot entirely solve this problem, for they do not have ability to control all of the supply of a commodity and of substitutions for the commodity. All that a cooperative can do is administer the supply provided by its members in the market. This is a sizable service for many cooperatives have been able to help in

stabilizing markets. Moreover, when industry programs of market control are carried on by means of marketing agreements or orders, cooperatives can perform a very important role as they can effectively represent producer interests as distributors in the market.

Finding Market Outlets

Many cooperatives have performed an invaluable service for their members in finding market outlets. Probably the most striking illustration of this is the case of Sunkist, but there are many agricultural areas that owe their place in the sun to the job done by their cooperatives in finding outlets for what they produce.

A cooperative marketing enterprise isn't like other enterprises which can leave an area when the trade dries up. The cooperative has to find market outlets or dry up itself. This gives cooperatives a tremendous incentive to find market outlets if this is at all possible. There is no easy way out for a cooperative.

Training Schools for Democracy

One of the basic principles of the founders of agricultural extension work in America was the idea of "learning by doing." In the early days great emphasis was placed on the demonstrational approach--of showing people how to actively do things. As Seaman A. Knapp once said, "What a man hears he may doubt, what he sees he may possibly doubt, but what he does himself he cannot doubt."

It is hard to realize how much the participation of farmers in cooperatives has given them actual business experience. Thirty or forty years ago only a handful of farmers knew anything about purchasing farm supplies or marketing farm products.

Today there are perhaps 100,000 farmers who are members of boards of directors of cooperatives, and there are as many more who have been board members. These farmers know what the score is. They can read financial reports and understand the general facts of business life. Let's not forget that many of these directors are high school and college trained.

It seems significant to me that many of the leaders in agriculture have had experience -- as members, directors, or officers in farmer cooperatives. This experience has trained them as farmer representatives and given them an opportunity to demonstrate ability.

Cooperatives are a great educational medium in many other ways. Take, for example, membership meetings. These meetings teach farmers many things about their own businesses. Another educational influence is the membership publications of cooperatives which carry a stream of educational information out to farmers. The total number of readers of farm cooperative periodical publications of one type or other runs into millions.

Cooperatives Strengthen Rural Communities

Rural sociologists have long maintained that cooperatives enrich the lives of people in rural communities by giving them a sense of belonging. When a farmer goes to town and sees his cooperative warehouse, gin, elevator and other facilities he enjoys a sense of ownership and community participation. Thus cooperatives break down the barriers between town and country, and make farmers proud of the communities in which they feel a partnership interest. On the basis of a recent study of 22 rural communities in Iowa, Professor Roy E. Wakeley of Iowa State College came to the conclusion that businessmen in rural communities where cooperatives are located could well take a good look at the total effect of these cooperatives on local business conditions, for he found that the communities well served by cooperatives increased the business opportunities of other forms of business enterprise.

Dr. Edwin G. Nourse, eminent economist, once wrote that cooperatives afford farmers a means of organization ideally suited to their industry needs. By means of cooperatives farmers can keep their individuality while getting the advantages of sound business organization. Through cooperatives small farmers can get the same advantages in marketing and purchasing as large farmers. There is no other system of organization for farmers that insures this, and helps so much to preserve the family-farm type of agriculture. As Paul Armstrong, former General Manager of Sunkist Growers, has said: "Cooperatives enable small farmers to do business in a big way."

Cooperatives as Pace-Setters in Agriculture

I believe that cooperatives can properly take credit for much of the improvement in purchasing and marketing methods in agriculture. These organizations have but one basic objective -- to serve the needs of their farmer members. The interest of their members is as farmer users of the services of the cooperative and only incidentally as stockholders. The financial interest is only incidental to the achievement of the service aim.

This kind of organization -- geared to and integrated with the needs of the farmers served -- has taken the lead in many industry improvements. I might cite here the buying of farm supplies to meet farmers' specifications, the idea of open-formula feeds, fertilizers and other supplies, bulk handling of feeds, fertilizers, dairy products, citrus fruits, and other crops. The development of meat-type hogs is another good illustration -- or the emphasis on protein in wheat or staple length in cotton.

Much of the early work in grading and packing to meet consumers' needs was done by farmer cooperatives. As Wells A. Sherman stated many years ago in his well-known book, Merchandising Fruits and Vegetables, "We may credit the cooperative movement with having reduced the number of brands which would otherwise have been on the market and with having made a few brands well known and valuable." Cooperatives were also leaders in paying farmers in accordance with the quality of their product.

Any history of the improvement in marketing and purchasing methods in American agriculture would need to recognize the major contributions of cooperatives -- and it should be remembered that not only farmers but consumers have benefited.

It is true that not all cooperatives are pace-setters -- but it is also true that many of the pace-setting innovations in marketing farm products or purchasing farm supplies have come from them.

It should also be noted that cooperatives are pace-setters in service and in lowering marketing and purchasing costs. If standards of performance by other agencies are low, cooperatives soon fill the gap. With efficient cooperatives around, competing firms must render equivalent service at reasonable cost to survive. Even the threat of possible competition from a strong cooperative may keep up service standards for farmers.

Assistance on Problems of Agricultural Stabilization

Cooperative leaders know that the problems of agricultural stabilization cannot be handled by cooperatives alone -- but they know that farmers through their cooperatives can help in solving these problems. In many cases cooperatives have been able to perform many services that would otherwise have led to government programs. The farm cooperatives have insisted on the use of the self-help principle for they believe that this makes for a virile system of farming.

Preservation of our Competitive Free Enterprise System

Probably no contribution of farm cooperatives ranks higher than the influence that cooperatives exert toward the strengthening of our competitive free enterprise system. These cooperatives give farmers a place in the competitive free enterprise system -- and farmers are proud of that place. No one respects the rights of private property more than a farmer. Ownership in farm cooperatives gives farmers a substantial stake in the business organizations that serve them. Altogether some 3,000,000 farmers have investments of well over 4 billion dollars in their economic enterprises. Do farmers wish to conserve and protect these investments? Of course they do. They are as important to farmers as their investment in

their farms because the cooperatives strengthen their investment in farms and equipment. We frequently hear economists maintain that people should invest in America -- that they should hold more stock in American corporations. The farmer is taking this advice to heart and because of it some 3,000,000 farmer members of cooperatives are steadfast supporters of our free enterprise economy.

Here I would like to refer again to Paul Armstrong's talk in which he vigorously maintains that a bona fide farmers' marketing cooperative in its organization structure and operations is the very "antithesis of socialism." He holds that a more adequate way to describe a farm cooperative would be as an "industrial democracy."

Use in Time of War or Peace

There is one other contribution of cooperatives that I consider very important -- their use in time of war or national emergency. During World War II the government naturally turned to cooperatives to help mobilize agriculture. A whole book could be written on how the farm cooperatives aided in the war effort -- in conserving production supplies, in rendering an efficient marketing service, etc., etc. The organization of farmers into cooperatives provides a bulwark of national defense through which agriculture can be quickly mobilized in time of great national emergency.

Let's not forget one other contribution of farmer cooperatives. They are also weapons for keeping the peace. Experience shows that where strong, voluntary cooperatives exist Communism can't get rooted.

Our farmer cooperatives are living demonstrations of the vitality of our American free enterprise system -- both at home and abroad. It is significant to me that each year hundreds of students from such countries as Iran, India, Pakistan, Indonesia, Thailand, Japan and Korea are coming to this country to see how our cooperatives work and how our methods can be adapted to their countries.

The Record is Good and Promising

I have stressed the positive contributions of cooperatives. I realize that not all cooperatives are what they should be. Many are inefficient and bring little credit to the cooperative idea. However, on the whole, the record of farm cooperatives in this country is good, and I believe that it is continually getting better. While much remains to be done in improving cooperative methods of organization and operation I am confident that the progress made in the past will be continued in the future.

Almost fifty years ago a great Irishman -- Sir Horace Plunkett -- espoused a program for the improvement of American farm life which President Theodore Roosevelt adopted as his own. It called for better farming, better business, and better living. The key to the program was better business and Plunkett and Roosevelt both recognized that farm cooperatives were essential to a better business system for agriculture.

In the intervening fifty years we have had better farming and better living on American farms, and I have no doubt that the contribution of cooperatives to the strengthening of farmers as business men has been at least partly responsible.

I would like to close on a constructive note. Some time ago I wrote an article in which I asked the question -- "Have farmers' cooperatives a future?" This is a big subject -- but I think you know my answer -- the need and opportunity for the future of farmer cooperatives is great. The degree of achievement will depend upon the determination of farmers to see that this farm tool is properly used and safeguarded.

COOPERATIVE DESTINY -- YOUR CHOICE 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

I like the subject that you have assigned me because it makes cooperative destiny a matter of choice. The subject implies that the future of Maine cooperatives largely will depend upon what you as cooperative leaders do -- individually and collectively. It's a proper subject for us to ponder over.

There is an old expression to the effect that life is what we make it. This applies also to cooperatives. Cooperatives are what we make them, and I would like to emphasize the "we" because cooperatives are not made by any one man. They are made by a number of people working together in different capacities. The members are, of course, the foundation of a successful cooperative, but it's what the members do in selecting directors and it's what the directors do in hiring or firing a manager, and in their formulation of policy and evaluation of results, that is all-important.

When we talk about cooperative destiny, we are thinking of the factors that contribute to the rise or decline of organizations. Perhaps we can paraphrase the topic something like this: "How do we build strong, effective cooperative organizations with a built-in capacity for growth and survival?"

Here, I would like to bring out the point that if organizations are to survive and grow, they must be able to adapt to change. They must be able to improve with time. They cannot stand still in any way. If we look backward instead of forward for a moment, we shall see that the major organizations in existence today -- the ones we consider important -- are generally the ones that have changed quite a good deal in past years. Take, for example, an organization like the Cooperative G.L.F. Exchange. It's a far different organization from the rather simple feed, seed, and fertilizer purchasing association that was established by Ed Babcock and other New York farmers just after World War I. It has maintained the high principles and objectives of the original organization, yet it has adapted itself to changing conditions and has greatly extended its scope of operations to meet many problems that were not even imagined forty years ago.

Another great cooperative, Land O'Lakes Creameries, Inc., is a far more complex and better integrated organization than it was even a few years ago. I could take other examples throughout the country to illustrate how the organizations which have survived and grown are those that have been able to adapt to change. In fact, such organizations have even initiated and helped bring about changes in the environments in which they operate.

1/ Talk at Maine Cooperative Council Summer Conference, University of Maine, Orono, Maine, July 19, 1962.

Now to continue with my subject. If a cooperative organization is to survive, it must be able to continue to meet economic needs. It must be able to perform functions of importance to its members -- those who are served by it. Farmers can't start a cooperative as a viable organization unless it has a good prospect of success -- that is, unless it has a good prospect of attracting the support of those who will see and obtain benefits from its services. We can't expect continuous growth unless the cooperative finds new and better ways to serve members' needs. This calls for research and planning, provision for financing new facilities and services, and many other related things which I cannot fully discuss here.

We must always remember that an organization doesn't exist for itself alone. It exists because it is of service to someone--this is particularly true of cooperatives. People may join cooperatives in the expectation that they will be well served, but if they are not well served they are going to leave the organization. Keeping up with the trends is important for all kinds of businesses. A considerable number of organizations now on the 1962 Fortune magazine annual list of 500 major corporations were not there a year ago. Conversely, a large number that were on the list a year or so ago are now off. Even a big organization may lose ground and finally fail. Think of Packard and other automobile companies that were once great, but are now only memories.

When we think of the future of a cooperative, we must ask ourselves this question: Who is responsible for seeing to it that an organization thrives? Actually, the responsibility rests with all the three elements that make up a cooperative: the members, the board of directors, and the manager and his staff.

The first requirement is well informed members who will accept responsibility. We must expect members to be responsible in the same way that we must expect our citizens to be responsible. We can't have a living democracy unless we have citizens willing to accept their duty to vote and elect representatives capable of guiding the affairs of the country. The same thing is true for cooperative organizations. I know an organization in the West that has the slogan -- "Every Member a Field Man". I like this slogan because it indicates the sense of responsibility that is vested in the members and assumed by them.

We often hear the expression that a cooperative needs loyal members. I'm of the opinion that loyalty is something that is built into people. They become loyal to those things from which they benefit or whose value they recognize. Cooperatives must engender in members a sense of responsibility -- a realization that they must do their share to help an organization succeed.

On the other hand, I don't feel that we must ask the impossible of them -- blind loyalty. We must see that members are well informed and that they know what the organization is doing. They must be given some indication of the benefits of their participation. They must be given the feeling that the organization is theirs, and that it does not belong to the board of directions, the manager, or anyone else.

The members must realize that they are responsible for having able directors. They cannot ignore this responsibility. Does your organization have a plan that helps you select the best possible directors? The method by which the directors are elected often affects the quality of a director selected.

Let's focus our attention now on the directors. Certainly if you are a director, you have a responsibility for the success of the cooperative you represent. You have been placed in your position as director to help maintain the strength and vitality of the organization. You can either contribute to that objective or be of little value to it. I think that one of our great weaknesses in cooperatives is that, in many cases, directors do not have a full understanding of directorial responsibilities. As a result, they do not make the best use of their opportunities to serve their organizations. Frequently, there is lack of knowledge on how a board of directors should function. We often find directors who attempt to manage the day-to-day operations of an organization and this can blight the spirit of a manager as fast as anything.

Directors who attempt to take over the manager's prerogatives do untold harm. Such directors seem to want a rubber-stamp manager rather than a vital, able man who can perform as a manager in a satisfactory manner. No first-class manager is going to continue long with a board of directors that restricts him at every point. If rivalry develops between a board of directors and a manager, something is wrong. Either the board or the manager isn't functioning correctly. A situation of this kind calls for analysis of the cause of the difficulty, and corrective action.

While a board should not allow itself to hamstring the manager, neither should it go to the other extreme and give the manager too free a hand. A cooperative can become subservient to the manager unless directors exert an effective role in the total management process.

Let's turn now to the job of the manager. We cannot expect any cooperative organization to survive very long if it does not have a first-class manager and first-class managerial employees. I like to think of a first-class manager not only as a man who carries out the intent of the board of directors and endeavors to meet the needs of the members, but one who also is a man of some creativity and independence. I don't believe we can expect a person who cannot think for himself to be a capable manager. A first-class manager should give leadership to the board of directors, but also he should realize that he needs the judgment and counsel of his directors. They can be his sounding board to help him know whether the way in which he is operating is meeting the needs and objectives of the organization.

I hold that there should be a reciprocal, or reciprocating, relationship between the members, the board, and the manager. None of them can operate effectively without the others. The members need the board and the board of directors requires a manager. A manager needs a board of directors and a board of directors exists only to meet the objectives of its members. If we could firmly establish this idea of the reciprocating action of these three interrelated functioning parts of the organization, it would help us build stronger organizations. No one of the three can function effectively unless the other two are working well.

I was recently asked to give a talk on the future of cooperatives at the American Farm Economics Association meetings in New York City. In preparing for that talk, I gave a lot of thought to the factors affecting cooperative destiny and to a number of developments that are contributing to a growing importance of cooperatives. 2/ From this analysis I concluded that the kind of agriculture we now have, and the kind we can foresee, requires that farmers have strong business organizations to best serve their needs. How can farmers long survive as independent business men unless they, like other independent business men, join together for their mutual benefit and protection? To me, it seems significant that independent grocery stores have found it necessary to join together in order to meet the competition of the chain stores. The same thing is true of most farmers. They must join together if they're going to meet the competition of highly efficient productive units in a market that demands greater uniformity and steady supplies of large quantities of high quality products.

2/ See Joseph G. Knapp, "The Scope of Farmer Cooperatives - Present and Future", Journal of Farm Economics, May 1962, pp. 476-488. (Mimeograph copy also available from the author.)

At the present time, department stores are having a rather tough time meeting the competition of discount houses and mass market food companies. It is significant that many department stores now buy together cooperatively in order to meet such competition.

Cooperatives thus may be viewed as a way in which people or organizations can join together to compete better. If we look at them in this manner, we shall free ourselves from sentiment, and shall regard them as a practical method of doing business.

Without doubt, there are fine social elements in cooperatives and we should not lose sight of them. The process of working together toward a common objective is in itself something that should be encouraged. It's also important to work together for an ideal. In farmer cooperatives we have the kind of organizations that farmers can rally around to protect their own vital interest as farmers.

Cooperatives have made a lot of progress in the last 25 years, but the evidence indicates that many are just now learning how to cooperate in an effective manner. In the next half century, as I read the tea leaves, we're going to find cooperatives becoming the recognized way through which most farmers conduct their own business affairs. There are many reasons why farmers should have their own organizations in the same way that workers have their unions or other private business men have their own special types of organizations. Moreover, a more independent agriculture made possible by cooperation between farmers will contribute to the best interests of all parts of our society.

This talk has directed attention to what <u>you</u> can do to help farmer cooperatives be of maximum service to farmers. I have stressed the importance of being a responsible member, an able director, or a competent manager, for most of you fit into one of these three categories. If all cooperative members, directors, and managers perform in the most efficient manner, cooperative potentials can be largely realized and the future of farmer cooperatives will be bright indeed.

So -- I conclude by saying: "It's up to you."

WHY COOPERATIVES ARE ESSENTIAL TO THE FAMILY FARM 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

"Farmer cooperatives, designed in manifold ways for a multitude of purposes, are in many respects a bridge between the technological and management demands of modern commercial agriculture and its decentralized, small-unit, family-farm organizational structure. As a form of business enterprise, the cooperative associations perform for agriculture what is done by corporate organizations in industry and commerce."

Economic Report of the President,
January 1961.

I welcome this opportunity to discuss with you the mutual dependency of farmer cooperatives and the family farm. We know the importance that Secretary Freeman attaches to the family farm where the individual entrepreneur (the American farmer) through his resourcefulness and ingenuity has brought forth from the land the productivity which makes us the best fed country in the world.

The underlying philosophy of cooperatives strongly supports the family farm as the fundamental unit of our rural society. Admittedly, the wide variation in types of farming practiced in the United States precludes a precise definition of just what constitutes a family farm. But for our purposes, it is sufficient to accept the concept of a family unit of production as being a business organization in which most of the labor and managerial activities are combined in the same individual or family.

The family farm today must operate in an economic environment characterized by bigness. Individual farm operators have amply demonstrated, however, that the family-sized unit is flexible enough to adjust to and adopt improvements in production technology. It is significant that larger-than-family farms generally have not been able to outperform the commercial family farm. However, these large production units do have a decided advantage over family-sized farm units in their ability to exercise a measure of bargaining power in transactions with sellers of production supplies and purchasers of farm products.

It is in these spheres of activity - purchasing, marketing and providing services - where farmer cooperatives make their great contribution toward preserving our family farm units. The growth of cooperatives has come in response to the needs of farm people for a means of achieving economic equality with large-scale organizations.

1/ Notes for RAD Family Farm task force meeting, August 10, 1962.

Several months ago I wrote to some 80 cooperative leaders in the United States asking them to share their ideas on the relationships between farmer cooperatives and the family farm. These cooperative leaders were representatives of operating marketing, purchasing and service cooperatives, national associations of cooperatives, banks for cooperatives, state cooperative councils and land-grant colleges. The responses to my letters were both challenging and informative.

We are all familiar with the saying that farmers as individuals sell at wholesale and buy at retail prices. It is through cooperative action that farmers can put themselves on a par with big business and buy at wholesale and sell at retail. The various letters stressed this fact.

Cooperatives also provide a means for enabling producers to coordinate and integrate their production and marketing decisions and operations. As one warned, "unless the farmer and his family take it upon themselves to do the integrating they will become employees instead of owners." Another expressed this view as follows:

> "I do believe that cooperatives offer a way for family farms to more thoroughly integrate their production, marketing and purchasing operations and maintain some control over them. However, if farmers are going to utilize cooperatives as a means of integrating, they must provide these services at cost savings which equal or surpass those of individual businesses."

These cooperative leaders also felt strongly about the importance of cooperatives in increasing the bargaining power of farmers. Let me quote some of these replies on this point:

> "I doubt that the family farm as we have known it in America has a ghost of a chance of survival unless it is served by cooperatively owned off-the-farm businesses in the fields of marketing, supply, electricity, credit, insurance, and others. Only by means of cooperatives can the individual farmer gain for himself some decent measure of economic bargaining power. This economic bargaining power, he simply does not possess as an individual, and he never will be able to possess it as an individual in the kind of economic system that we are now developing."

> "I believe that the cooperatives probably have as much influence on family farms in this day and age as family farms have on cooperatives. If we can strengthen our cooperatives and become of increasing benefit to family farms, I think we can then cement our position in the economy in a much better way. Certainly the family farm needs the cooperative as it is probably its only real source of bargaining power at the market level."

"Co-ops are simply tools to help farm families win some semblance of bargaining power in an economic world dominated by giant business. Without the co-op, the farm family is completely helpless at the mercy of economic bigness. But, with the co-op, the family has its one opportunity to do something about shaping its economic destiny."

"The second half of this century will no doubt be termed as the atomic age. I am very confident as long as the foxes have their holes and the birds of the air their nests, farmer cooperative purchasing associations will play a big part <u>if used by farm people</u>. They do not only increase their bargaining power, but will also preserve the family farm."

Several of the replies stressed the importance of cooperatives in strengthening competition. Let me quote from two of these letters:

"In our own farm supply business, we know that our 'cooperative umbrella' is a great protection for all farmers, both members and non-members. We could relate many stories regarding price adjustments downward by competitors when our supply service became available in new areas."

"More and more farmers are turning to cooperatives for aid. This is shown in our state by the continued increase in business handled by cooperatives. Also, without the competition provided by cooperatives, prices of farm supplies would be higher, prices of farm products would be lower and services would be fewer or more expensive."

Cooperatives are designed to serve the family-size farm. Basically, a cooperative is a voluntary business organization established by its patrons to perform marketing, purchasing or service functions collectively for their direct benefit. Membership is limited to farmer-patrons exercising democratic control over the affairs of the association. Expenses of running the organization are prorated and net returns are shared on a patronage basis. Interest or dividends paid on funds raised through the sale of stock is limited and the association itself is legally not entitled to make a profit on business with its members. Thus, in contrast to rendering services for profit to investors, the cooperatives' mission is service to member-patrons at cost. Moreover, since the organization is controlled by farmers, its activities are oriented towards ways in which the members' interests are best served.

On the cost side, the cooperative has the same advantages as any other type of organization that is able to increase the scale of its operations. In the case of marketing associations, for example, combining the output of individual farmers insures a more effective use of facilities and permits more effective standardization and grading than could be performed by an individual producer. This in turn, can provide the basis for branding, advertising, and market expansion. In the case of purchasing associations, by combining their individual purchases into sizeable lots, farmers may be able to buy direct from primary sources of supply at wholesale discount rates. Further, such organizations can exercise control over quality of merchandise purchased through specification buying and, if necessary, move into a manufacturing operation to insure that the needs of farmer-patrons are being adequately met.

In addition to marketing and purchasing activities, cooperatives are ideally suited to rendering other distinct services to farmers. Take, for example, the contribution of cooperatives in providing electricity to rural America. In the country, electric power is not merely a convenience but a necessity for the machine-age efficiency of today's agriculture.

Cooperative associations have also rendered valuable assistance to farmers through their educational activities (meetings, house organs, field representatives) and have thus served as valuable adjuncts to local, State and Federal agencies in disseminating information for the betterment of rural living. In our economy characterized by ever-increasing size in business enterprises, cooperatives provide a self-help, democratic mechanism for farmers which recognizes the family farm as the basic unit of our agriculture.

This thought was expressed earlier this week by President Kennedy in his message to the American Institute of Cooperation:

> "..... Tremendous challenges await farmers and cooperatives during the years ahead. If they are met with vigor and determination, benefits can result which will invigorate and benefit our entire economy. Cooperatives are a vital part of the American Free Enterprise System, embodying the self-reliance American farmers have used to build the most efficient system of farming known to man....."

CHALLENGES TO FARMER COOPERATIVES *

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

In this talk I am not going to refer to several important challenges that are constantly with us. I take it for granted that all cooperatives must work to strengthen their management, financing, membership and research programs.

Rather, I want to deal with challenges that are somewhat new -- ones that call for fresh approaches. These are challenges that also provide cooperatives with great opportunities. Let me list a few that I want to discuss with you today.

1. The income tax problem.
2. The common market problem.
3. Building a better rural civilization.
4. Meeting technological change.
5. Pacesetting.

I wish to say a few things before dealing with these challenges. Although I have enjoyed working with your cooperatives in the past, I must admit that it has been several years since I have had the opportunity to work directly in this State. Of course, I am aware of the various activities of FCS staff members here but that is not quite the same thing as being on the ground myself.

I can well remember when we made our first study of Mississippi Federated Cooperatives -- almost 25 years ago. M.F.C. was then just beginning to get started as a modern cooperative organization. I am aware of the tremendous cooperative changes that have occurred in your State since that early work and I congratulate those of you who have been largely responsible for this great achievement. May I pay tribute here to my old friend, Charley McNeil, who deserves special recognition for his leadership in cooperatives not only in this State but throughout the South.

At one time Mississippi was looked upon as just about the last State in cooperative development with the notable exception of the Staple Cotton Cooperative Association in the Delta region which has long stood as a symbol of excellent cooperative management. In fact, our Department of Agriculture study of the Staple Cotton Cooperative Association, published in 1926 as Department Circular 397, recognized it then as a model cooperative marketing association. Now, with your great progress in recent years, Mississippi has become known as a pacesetter in cooperative growth. You can be very proud of this rise in prestige.

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* Talk given at Annual Meeting of Mississippi Council of Farmer Cooperatives, Jackson, Miss., December 6, 1962.

In getting ready for this talk I asked Miss Anne Gessner, Chief of our History and Statistics Branch, to provide some statistical information on the status of farmer cooperatives in Mississippi today. According to the information given me by Miss Gessner, Mississippi had 142 farmer cooperative associations in 1959-60 and the membership in these cooperatives totaled 133,640. The net value of business amounted to $190 million.

Nine years earlier, 1950-51, Mississippi had 130 associations and the number of memberships totaled 120,637. The net business volume of these cooperatives was $109 million. Then you ranked 24th among the States in total net business volume. You have improved your position so that the State now ranks 21st.

In looking over the statistics provided me, I note that the number of memberships has declined somewhat for the marketing associations, but expanded appreciably for cooperatives handling farm supplies. In looking at your growth during the past 9 years I am impressed by the fact that during that period there has been a rise of very important new organizations such as your Mississippi Chemical Corporation at Yazoo City, and the Mississippi Livestock Producers Association at Jackson.

I would like to here emphasize the importance of getting cooperatives to work together and to compliment the Mississippi Cooperative Council in the work that it has done to bring cooperatives together. A good State Council provides a seed bed for cooperative growth.

I venture the opinion that Mississippi cooperatives are working together more as a team than they have ever done before. Healthy competition is good for cooperatives for this keeps them on their feet trying to excel. Cooperation among cooperatives may enable them to compete more effectively on a broader front.

The Income Tax Challenge

A direct challenge to farmer cooperatives at the present time is given them by the requirements of the new tax law. This is something that is of deep concern to all farmer cooperatives in the nation, as evidenced by the tremendous turnout at the tax briefing conference which was held in Washington several weeks ago.

I was very much interested in the discussions at this conference. There seemed to be a feeling on the part of many that the new tax law was going to force numerous cooperatives to face up to certain questions that have long been slighted or ignored. There seemed to be a belief that the organizations which were well managed with good membership programs, that kept the members well informed and which were able to plan and develop effective operating and financing programs would be able to sustain their position as strong farmer cooperatives. Many problems must be resolved before cooperatives adjust to the new tax law but this job can be done.

I have talked with some cooperative managers who are little concerned about this problem -- and others who are very much concerned. The significant thing is that there seems to be a feeling on the part of cooperative leaders generally that cooperatives can meet this problem in their stride and that in meeting it they will build stronger business institutions.

Every cooperative organization thus is challenged to find our everything it can about the workings of the new tax law and then devise the best conceivable plan suitable to its needs for adjusting to it. Oftentimes we are forced to do things by legislation or by outside acts. This new tax law can be that kind of situation. How injurious the provisions of the new tax law will be to any cooperative will largely depend upon the actions or lack of actions of the organization itself.

As James R. Ayers, Jr., General Counsel of the Southern States Cooperative, Richmond, Virginia, said at the Tax Briefing Conference: "I have great faith in both the purchasing and marketing cooperatives and their ability to get over to their patrons their continued obligation to assist in the financing of their business enterprises. If we can do a thorough job, I think much good can come from the new law."

The Common Market Challenge

Another challenge coming over the horizon is the creation of the European Common Market. This can have a great impact on American agriculture and especially on cooperatives. What is this problem? How are cooperatives going to meet it?

I don't believe that we are sufficiently aware of the big changes that are going on in the industry and agriculture of the Common Market countries and how they may bear on our agricultural cooperatives. We have been inclined to look at the Common Market as an export problem primarily without realizing the broad long run opportunities for building international trade that the new Common Market approach may afford.

I think that the Common Market developments are going to bring home to us the fact that we must strengthen the efficiency of our cooperatives if we are going to retain our domestic market and build our export markets. We should realize that European agriculture is being modernized at a rapid rate -- both in the present Common Market countries and in the nearby countries which may be drawn into the Common Market. Let me read to you a paragraph from a report which indicates what is going on in Norway.

"Owners of small and medium-sized farms in many parts of Norway have begun to cut costs and labor by developing various forms of cooperation among neighbors. These schemes include common barns, joint mountain dairying in the summer, mechanization of forestry work and the establishment of farm machinery pools. There is a group realization that agricultural production costs have got to come down in order to insure survival in case Norway joins the Common Market as a full member....."

I would also like to quote a recent report from the Ulster Agricultural Organization Society of Northern Ireland.

"The Farmer Co-operative Movement of this country knows that its counterpart in Europe is strong and in a position to develop. It is imperative that whatever strength we have must be conserved and not dissipated through petty differences of opinion and parochial prejudice..... We can be certain that our European friends will see to it that they are prepared to take full advantage of what the British market can offer. We must not be displaced in our own market but seek to maintain our position at home and develop even wider markets in Europe..... It is very necessary that our own links are strong and well forged, so that we may pull our weight when the time comes. Each and every cooperator must make sure that he is supporting his society to the maximum extent."

These quotations should give us pause. If European farming and farmers' cooperations are going through a tightening up process, can we afford to be less vigilant in strengthening our farming and cooperative practices?

One of the real challenges to cooperative organizations is to develop a truly cooperative method of operation. This has been an ambition of many cooperatives for a long time and a number have made considerable progress toward this goal. There are other cooperatives that can't get away from operating much like the usual business organization. These cooperatives like to think of themselves as primarily big business concerns. This shows up often in weak membership relations work and results in lack of support from members.

There is abundant evidence that a cooperative marketing organization can be so organized that the growers will look to it as their marketing representative. Such a cooperative can effectively adjust to the market the products placed in its jurisdiction and after payment of costs make distribution of operating benefits to the members in proportion to their individual use of the associations' services. In such cooperatives, members come to realize that their organization is their marketing agency and that the determination of its effectiveness depends upon the total returns that are derived from its services rather than by any amounts that may be advanced at the time of initial delivery of product.

A cooperative manager in Texas recently told me of a situation in which a number of local cooperatives preferred to take lower initial sales returns from the cooperative sales agency than the going local prices. They knew that the association would be able to provide them with substantial year-end savings which would result in a total return value for the crop higher than was available from commercial competitors.

I think this is one of the big challenges to cooperatives today. Can we build strong organizations that are distinctly cooperative in character? It is my understanding that your great fertilizer cooperatives in this State are largely built on the principle that membership in them means something definite to the members and that it is in their long-run interest that they provide these associations with full financial support.

The Rural Development Challenge

Now to turn to another challenge. I was impressed recently with a statement by Richard Collins in the October issue of the Missouri Farmer, the publication he edits for the Missouri Farmers Association, Columbia, Missouri. He asked this question: "What is the immediate threat to rural America? Communism? Water shortage? Pestilence?"

Then he said: "No, it's the lack of ability to cope with the social and economic changes resulting from the application of modern farming technology..... There is a growing public recognition of the need to make a choice -- either encourage coordinated planning in rural communities or pay the price of a continual plague of social and economic problems in the country."

His whole article was a plea for rural community leaders to get behind the RAD Program, which he defined as follows: "It's called Rural Areas Development. It consists of a pattern of action to bring together all the programs developed to assist rural communities, plus all of the leadership interested in a particular area. It involves creating awareness in local leadership of the advice, credit, grants, planning available to them, encouraging an inventory of local resources; establishing definite, practical goals; and formulating a plan of action."

He then said the whole idea of rural development depends on community cooperation. "The amount of success can be accurately predicted by taking the number of people interested times the amount of effort expended." He finished up his statement by saying: "The aim is for action." I hope that cooperative leaders feel the urgency of this plea, for they have much to contribute if they only will.

What are cooperatives going to do about keeping people on the land or near to it? How are they going to help in the dispersion of industry? What are they going to do in the way of developing a better rural environment to serve the needs of city people in the way of providing recreational facilities?

The Challenge of Technology

Another of our great challenges comes from the fact that broad horizons are being opened up by technology. One of my friends maintains that a marketing revolution is taking place. New tools and new techniques are the order of the day. We are beginning to see how the electric computer opens the door for low cost accounting. Cooperatives always have had a very difficult record keeping problem because of the number of members that they must deal with. Electronic data processing methods will greatly reduce this burden. Moreover, it will give cooperative management officials a better basis for making decisions and for controlling inventory and product quality.

A very significant problem confronting cooperative leaders is to bring about consolidations where necessary to achieve greater efficiency for the benefit of farmers. How can we make big effective organizations without losing the vitality of membership-owner control? It can be done but many organizations tend to lose the spirit and meaning of cooperation as they become large business organizations. If we lose the object for which we have worked, we have lost our reason for being and we have failed rather than succeeded.

One of our great opportunities is to overcome the lack of vision that we frequently encounter pertaining to the potentials of agriculture. You are very fortunate here in Mississippi in this regard for the vision of your cooperative leaders is nationally recognized. I am very much in accord with the views expressed here this morning by Dr. W. L. Giles that great developments in agriculture are limited only by our imagination and ability.

How can we do big things if we have limited conceptions of what might be accomplished? I think in many cases we can almost label our approach to problems as stupid indifference. We need in agriculture today better rural leadership and I don't mean by that, people who are spellbinders, who can encourage people to do things that they should not want to do. On the contrary, we need leaders who have a real understanding of the needs of agriculture, men who can find solutions, men who can bring about necessary changes.

How do we build the kind of leadership that agriculture needs? I think that we have enough experience to know how we do it. We do it by involving people in problems, by the educational process, by teaching people the importance of research.

Today we read much about the "takeoff" in economic development. Are cooperatives ready for the "takeoff"? Are we just on the verge of acceptance of the idea by farmers that they can through organization meet many of their adjustment problems? There is much evidence that this is so. However, there are lots of cooperatives that are not ready for the "takeoff". They wouldn't know how to proceed if they were given the opportunity.

We might ask ourselves this question. What advantages do farmer cooperatives have in meeting change? My answer briefly is: (1) They are on the ground. (2) They are membership organizations. (3) They have a financial stake in the problems of change. (4) There is no better way.

The only real problem that cooperatives have in making change is that they are apt to be stodgy. They have a tendency to get into ruts. They confuse short cuts with principles. They sometimes follow bad habits. Cooperatives are like any other social organization -- they establish ways of doing things and then it's hard for them to change. Cooperatives have to build the idea into their organizations that change is something natural -- that they should accept it.

The eminent sociologist Margaret Mead has an article in the November-December 1962 issue of Harvard Business Review entitled MUST CAPITALISM CRAWL? She is concerned by the lack of drive in our business life. She believes that our people have become security obsessed and that we are losing our creative, pioneering spirit. She says everyone is watching and copying the other fellow. She abhors the practice of obtaining and following the latest and fullest information of each competitior, so as to assure for everyone the highest possible degree of responsive conformity. She is concerned that we are not doing the things that should be done.

Dr. Mead is critical of these trends in our society -- especially the concept of a business career as being primarily a means of furthering each man's private and individual aims. This characteristic of young men today she considers to be a new and stultifying aspect of American life.

Is her picture of American business overdrawn? Have we lost our zest -- our spirit of adventure? Read her article and think it over. I have read it three times now and I think she gets down to bed rock. Let's change the title of her talk "Must Capitalism Crawl" slightly. Let's ask ourselves "Must Cooperatives Crawl?"

The Challenge to be Pacesetters

Before I came down to give this talk, I wrote to my good friend Dr. Paul Blair of your State University for any suggestions that he might have on how I could best develop this subject. He gave me some excellent ideas but I liked particularly his view that the greatest challenge of cooperatives was to be worthy of the name pacesetter. Paul has expressed this matter so well that I am going to quote his views just as he gave them to me:

> "As I see it there has never been but one challenge to cooperatives. That challenge is:
>
> BE PACESETTERS!
>
> It seems to me that cooperative management and members must look at the stronger meaning of the word challenge. They need to see it as a defiant invitiation, or dare to excel their strongest competition. They need to read the definition of a challenge in any good dictionary. Emphasis on the stronger meaning of the word challenge is vital to making a shift from a defensive to an offensive outlook about cooperation. Cooperatives need to understand that their competitors are challenging or daring cooperatives to do a more effective job of filling the needs of farmers than non-cooperatives are doing. All other difficulties and problems will then be recognized as obstacles to be overcome in meeting the challenge to be pacesetters, rather than being challenges in themselves. Thus, a cooperative has not met or overcome the challenge until it is successful. And by successful I mean that its operations result in the welfare of its members being above and beyond what they might expect in the absence of cooperation."

I will end my talk on this note. If we can get more cooperatives -- and this means their managers, their directors, and their employees -- to live up to Paul Blair's conception of a pacesetter most of our problems will fade away.

HOW CAN COOPERATIVES CONSOLIDATE OPERATIONS FOR GREATER STRENGTH? 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

Farmer cooperatives can not ignore the tremendous changes taking place in agriculture. Individual farmers are increasing in size and investment while the number of farmers is steadily decreasing. It takes a different and stronger kind of cooperative to efficiently serve farmers today than it did a decade ago.

I think we can learn a lesson from the experience of the consumer cooperatives in England.

Before World War II, consumer cooperation in England was moving steadily forward and its future seemed assured. But in the nineteen forties it began to lose momentum and by the mid-fifties it had become apparent that drastic changes would be necessary if consumer cooperatives were to survive and prosper.

What had gone wrong? Chain stores and modern methods of retailing had begun to give the consumer cooperatives a real dose of competition. The consumer cooperatives had become too standardized, too habit-ridden, to bureaucratic. They had enjoyed great advantages built up over a long period of years, but they had not made full use of their favorable position by modernizing their methods and facilities.

Before we allow ourselves to say "It couldn't happen here" we should realize that the same sort of thing is happening here in the United States all the time. Cooperatives that are not setting the pace -- are having the pace set for them by more aggressive business competitors.

There is a lag that takes place in great economic adjustments. Some organizations see the trends earlier than others and take advantage of the new conditions. Others can't realize that conditions are changing and will never be the same again. By the time they wake up, it's often too late.

Where are all of the independent grocery stores of a generation ago? Many no longer exist. Those that have survived have either converted themselves into supermarkets, or chains, or they have become members of retail buying groups. I think we can express this in the form of a law -- like the law of supply and demand. Let's call our law the law of business survival, and express it this way: <u>any business must be able to adjust to change if it is to long survive</u>.

1/ Talk for Annual Meeting of Kansas Co-op Council, March 22, 1963, Wichita, Kansas.

Now this statement is so obvious that few will disagree with it. That's why we call it a law. However, it is easier to agree with the statement than to live according to it. It is not easy to adjust to change even if we know we must do so to survive.

Cooperatives can perform invaluable services for farmers, but if they allow their efficiency to run down, other forms of business will have more appeal to their members. Cooperatives must be at least as efficient as their competitors if they are to survive, and they must be more efficient than competitors, if they are to grow. Make no mistake about that.

And in measuring efficiency we should include all of those intangible and tangible things that are covered by the term "good service." A cooperative should be in a place where farmers like to be served because of the courtesy, friendliness, and competence of the employees and the convenience in the way the services are provided. It should be a pleasure to deal with one's own organization.

Now let me go back to the problem of the English consumer cooperatives. What did they do about their problem? The answer is that they began to fight back. They began to study their problems and take steps to modernize their services.

They took one very important step in 1955 when the Cooperative Union -- the general organization of consumer cooperatives in Great Britain -- set up the Cooperative Independent Commission, comprises of competent persons who were not engaged in cooperative management or administration. The report of this Commission in 1958 has had a tremendous effect on the British consumer cooperatives. It concentrated on what was "wrong rather than right" and it placed emphasis on the unfilled potentialities rather than on the progress already made.

One important finding of this report was that the British cooperatives were wholesale oriented rather than retail oriented. In other words, the cooperatives were not keeping sufficiently alert to the changes in retailing which were attractive to consumers.

We have had this same problem in our American cooperatives. A number of years ago the Cooperative Grange League Federation Exchange -- the big regional cooperative in the Northeast known as the G.L.F. -- reorganized so as to place more emphasis on the job at the farm level. The leaders in the G.L.F. found that they had to think in terms of what farmers wanted from the G.L.F. -- not in terms of what management thought farmers should want from it. There is a big difference in these two ideas.

The British Commission report recommended the amalgamation of many consumer cooperatives to build stronger organizations. It found that there were many redundant cooperatives that should be consolidated to make really strong organizations.

Since the report was issued, an "amalgamation survey" has been made to determine which cooperatives should be strengthened and which closed out. When these consolidations are completed there will be about 300 strong associations instead of about 875 which range from very weak to strong. The decisions to amalgamate are left to the memberships of the cooperatives but they are provided with technical information on how desired amalgamations can be effected.

When I was in England in 1960 there were two opposing factions among the cooperative leaders. Both recognized the need for change but one could be called the "go slow" group, while the other is known as the "ginger group," because it wants to put pep or ginger into cooperative development. The latter group sees the need of drastic reorganization along the lines of the Commission report.

Here in the United States we also need to look at our farmer cooperatives with a cold, analytical eye. We need to ask ourselves such questions as these:

1. Do we have too many weak, ineffective cooperatives that should be merged to make stronger, more vigorous organizations?

2. Is there a need for as much competition as we have between cooperatives? Perhaps farmers are supporting too many organizations for their own good.

Whether we like it or not, the future in servicing the substantial needs of farmers is going to belong to strong business organizations, either cooperative or otherwise. The opportunity is here for cooperatives if they will rise to it. Strong cooperatives can survive and prosper, but weak ones will not.

Few people realize how rapidly our cooperatives are adapting to change. Miss Gessner, Chief of our History and Statistics Branch, informs me that there have been 332 consolidations or mergers among cooperatives in the past six years. She reports that in Kansas during this period there have been 26 such cooperative reorganizations. The 332 mergers included all types of cooperatives, but were particularly important in dairy, grain, and farm supply associations.

We are all indebted to the fine Kansas State University bulletin, by Dr. Milton Manuel, "A Decade of Farmer Cooperatives in Kansas." This bulletin provides you with many facts that you need in charting your future course.

For one thing, I was impressed with the structural changes that have occurred in Kansas cooperatives during the fifties. For example, the total number of branches increased from 65 to 130, or by 100 percent. In 1951, only 32 associations had branches. In 1961 the number had increased to 74, or by 131 percent. There was a decrease of 47 in the number of associations with no branches, or a percentage decrease of 15 percent. It is also significant that 18 more counties were being

served by 5 fewer associations in 1961 than in 1951. In another part of this bulletin, Manuel points out that of 57 associations dissolved during the decade, operations of 26 were continued as branches.

I found of special interest Manuel's comparison of 50 selected grain cooperatives for the years 1950 and 1960. These 50 grain cooperatives have grown markedly in business volume and financial position during the ten years. They have come to depend more heavily on storage and handling income which has increased from 18 to 54 percent of total net savings. It's also interesting to see that patronage refunds from regionals have become rather significant as a source of net income.

I take it from Milton Manuel's study that, in general, Kansas cooperatives are healthy but that some are more healthy than others. At least, his study shows that Kansas cooperatives are in a good position to develop more strength. This bulletin provides us with much food for thought. We need much more analytical work of this kind to help us know what is going on so that we can build on fact rather than fancy.

I don't believe that Milton Manuel would be inclined to recommend a drastic revamping of all farmer cooperatives in Kansas -- if I read his bulletin correctly. I do, however, believe that he would favor a program of careful study which might lead to the merger or combination of certain cooperatives to achieve stronger and more efficient organizations.

I don't believe your situation in Kansas is quite the same as that in Wisconsin where a study, made by a Commission appointed by the Governor, found that the number of dairy cooperative plants in Wisconsin could be advantageously cut from 319 to 54. This Wisconsin study brought out a very important point: That a fewer number of well-located cooperatives could perform a needed service for farmers better at a greatly reduced cost.

One difficulty arises in such wholesale recommendations that the number of cooperatives be reduced. Everybody may agree with the facts but few cooperatives wish to take the lead in voting themselves out of existence. Such studies can do a lot of good in making people think, and they may lead to some consolidations that seem obviously needed -- but they can't force people to do what may seem to the researcher to be logical. As the old saying goes, "You may lead a horse to water, but you can't make him drink."

It has long been agreed by political scientists that we have too many counties in the United States, particularly in certain States. But few States have ever eliminated a county that has been set up.

I am inclined to believe that the best way to achieve consolidation of cooperatives is through the processes of education, research, and negotiation. We must teach people to accept needed changes when they are essential to the survival of the organizations which serve them. It is my belief that when members are well informed on the facts they will tend to accept changes that are necessary to the efficient performance of their cooperatives.

We have had a lot of experience in Farmer Cooperative Service over the years in helping cooperatives with merger or consolidation problems. Often we find that our recommendations are not adopted immediately but later we discover that over a period of years they have been put into effect.

One thing that we have learned is that a plan must be pretty well thought through before a decision is reached on it. The proposed merger should not be attempted unless there is full agreement that it is desirable. We have found that "timing" and "leadership" are very important.

A number of years ago, a public relations man coined the phrase "The engineering of consent" to indicate that it takes conscientious attention to psychological principles to gain public acceptance of an idea or an organization. We need this kind of social engineering to bring about desirable mergers. If we are going to increase the efficiency of our cooperatives, we must greatly improve membership educational work to increase member knowledge and understanding of the need for desirable changes.

One thing that I think cooperatives are weak on is planning. Too few cooperatives are concerned with more than day-to-day problems. Every cooperative should have a long-range planning committee -- to try to see what may be coming around the corner. If more cooperatives were looking ahead, they would see that it might be desirable for them to merge or consolidate before this becomes necessary. Mergers should be made to capture strength. Unfortunately, in too many cases, mergers are attempted as a last resort after the economic strength of the organizations involved has largely ebbed away.

Some 15 years ago I gave a talk at a meeting of the American Institute of Cooperation on the subject "Competition Between Cooperatives -- Meeting the Problem." Cooperatives are facing up to this problem, but they still have far to go in learning how they can best promote each other's interests. There are many things that cooperatives can do together better than any one cooperative can do separately.

In recent years, I have been impressed with the growing significance of state cooperative councils such as your own in integrating the common interests of all cooperatives in a State. By coming to know each other better, and by working together for common objectives, we come to think more in terms of the good of the whole rather than of its separate parts.

At the end of the talk I gave on "Competition Between Cooperatives" I quoted a manager who said: "Farmers must learn the technique of being well organized." We are making quite a little progress along this line, but the job needs a lot more attention.

I think we can profitably consider the following question: "Why have some cooperative mergers failed while others have succeeded?" Over the years we have worked with many associations on merger problems. From this experience I think we can say that each merger -- like a marriage -- must be looked upon as an individual affair. As in a marriage, the partners must be compatible and well informed on what kind of an arrangement they are going into. Moreover, they must have some assurance that they are going to get something of value from the proposed arrangement.

Mergers, like marriages, are a serious business. They can result in happiness or in disaster. Even though some marriages turn out badly most of us still believe in marriage. In the same way, mergers may not always accomplish the ends desired, but if they are intelligently planned and if the partners-to-be enter into the arrangement with their eyes open and in good faith, much can often be achieved.

THE IMPORTANCE OF DAIRY COOPERATIVES TO PRODUCERS*

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

It may seem strange that I come all the way out here to give you a talk on the present and potential importance of dairy cooperatives to producers. You know from long experience how important Gold Spot is to you.

Yet this subject is a good one for all members of Gold Spot and of all other cooperative dairy groups to ponder over. If we don't know or realize how important something is to us we neglect it, and later we may even lose it.

I had this brought home to me last summer when I made an appraisal of Irish agricultural cooperatives. You may be interested to know that cooperatives play a very important role in Irish agriculture, and that they are most strong in the Irish dairy industry. In fact, they handle about three fourths of all dairy products in that country. The remaining fourth are handled by a Government-controlled corporation known as the Dairy Disposal Company.

So it was interesting to me to compare the Government dairy processing and marketing operations with those of the farmers through their cooperatives. In one case the Government provides the processing and marketing service and the farmers who are served must largely accept it. They have little direct voice in how the Government operations are carried on. In the other case the cooperatives are responsible to their farmer members through their boards of directors--which in Ireland are called "Management Committees."

From my observations, I concluded that the Irish dairy industry could not permanently thrive on a part-cooperative, part-Government basis. It seemed to me that in the long run it should be all cooperative, and I believe the trend is moving in this direction.

The point that interested me was the direct confrontation of two forms of business control--one by Government, the other by the producer members. However, I should point out that the two systems are not in direct competition at the farm gate. All of the Government operations are in the western counties, while all of the cooperative operations are in the other parts of Ireland. Thus there is only a small amount of overlapping where the farmers see both systems in operation at close range.

At the beginning of this talk I referred to how we tend to lose things if we don't consider them sufficiently important. In Ireland a number of cooperatives were absorbed in the State-controlled company because producers did not take enough interest to hold on to them.

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*Talk given at Annual Shareholders Meeting of Gold Spot Dairy, Incorporated, January 15, 1964, Enid, Oklahoma.

You may think that such things could not happen here--but I assure you that almost anything can happen if farmers let their cooperative guards down. If you don't recognize how important your cooperative is to you--it can slip through your fingers in a hurry.

We are going through a very important phase in our national life. We have lived through so many changes that it's hard to know what to hold on to. Sometimes it may seem easier to let things that seemed important go--as part of the irretrievable past. Why should we try to make decisions when there are so many who are willing to make decisions for us? What can one individual do in a world of change?

You know the answer--one individual may not be able to do much except look for a storm cellar--but one individual, joined with thousands of other individuals, can exert an influence that can protect the welfare of all the individuals in the group.

In reality, times haven't changed as much as we sometimes assume. Look around you. You see people--and they are much like the people you have always known. They are born, they get married, and they die. They respond to a smile and they will fight if they have to. They will cooperate if they see the value of it--just like their fathers who helped form Gold Spot. If Gold Spot doesn't deliver the goods--meet their needs--satisfy them in what they want from it--watch out.

Some of you remember the famous remark of Henry Ford that "History is bunk." I am afraid that too many Americans have accepted this view without thinking very deeply about it. If they think a bit they know that history is the record of the past--and that any man who prides himself on being experienced is in reality proud of his own history and what he has learned from it.

If we ignore our history we are lost. We haven't anything to tie to. We can't determine whether we are making progress or going backward. We can't feel pride in accomplishments because we don't have any knowledge of what we have achieved. If we ignore our history we make the same sort of mistakes over and over again because we haven't learned anything from our past errors. If farmers don't know their industry and the economics of it they are at the mercy of all who promise them easy salvation.

Right now it is of interest to me that there are still many advocates of the kind of farm relief nostrums which failed dismally in the past. For example, there was a wheat-holding campaign right here in Oklahoma in 1919, but it couldn't dam up the supply of wheat and raise wheat prices. Some of you may remember the name of Aaron Sapiro who, in the early 1920's, was urging all wheat farmers to join in commodity marketing organizations that would control the price no matter how much was produced. I wrote a book on the wheat pools which covered this part of the country in the twenties--and now few people realize that lessons from this experience may still have some meaning for them.

When I was studying these pool organizations I spent two weeks right here in Enid in 1925 in the office of Cecil Munn, Manager of the old Southwest Wheat Growers Association. We have come a long way since then--but have we fully profited from this experience? It is not feasible for farmers to develop sufficient control over supply to set their own price--and force consumers to pay it. Farmers may be able to do this in limited areas for short periods of time but it's not possible to keep all the water from flowing to the ocean or all the grain from flowing to market. Sapiro and his followers found that world supply and demand determined price and they soon came to advocate international wheat pools that would include Canadian and Australian wheat producers. This grandiose dream collapsed with the worldwide depression of the 1930's.

I think every cooperative should preserve its history just as it should preserve its fiscal assets. In the long run, the history may help preserve and expand the assets. Take an organization like Gold Spot. If you didn't have a record of how you developed how could you know what it took to get started and what factors contributed to your success? I was inspired by looking into your history as told by your annual reports, membership magazine and, especially, by a talk at the American Institute of Cooperation last summer by your manager, Ralph Goley, called, "Adding up the Mile-Posts." You have a rich heritage of history--as your name, "Gold Spot," attests. In his talk Mr. Goley recorded some of the milestones of your progress-how you got your name, "Gold Spot;" how you met the needs of World War II; how you moved into use of fiber milk cartons; how you diversified your operations; and how you have been converting to bulk tank milk delivery. It's a record that builds confidence in your future--for if you have met difficult problems in the past you should be able to do so in the future.

Cooperatives are human institutions. They have been made possible by people. If we ever get to the point in cooperatives where we leave everything to hired management--even the selection of directors who should "direct" the hired management--we may as well bury the cooperative and start again--if we can find people with enough courage and interest to do this.

When I was in Ireland this past summer I found many cooperatives that had lost their membership vitality. In these cooperatives members had left things to the manager and the "Committee" so long that they were helpless to bring about changes. It is easy to get into this situation. Managers sometimes accept more responsibility than they should with the result that, as time passes, they may not be able to share it easily with directors and members. However, in every cooperative the time comes when the manager needs the support of the members. If the members have been lulled into unconscious acceptance of the cooperative they can't be expected to jump on their horses and help the manager out of a mess.

If producers really consider their cooperatives important they will see that they elect directors who will really look after their interests and see that they are kept informed.

Why are cooperatives important to producers? Do producers really need them? Are there not plenty of businesses anxious to serve them? Won't the competition of these firms insure that farmers get the most for their products and supplies at lowest possible cost?

The answer to these general questions is given us by experience. Farmers have found not only in this country but throughout the world that nobody looks out for their interests except themselves.

If all of the farmer cooperatives were closed tonight it wouldn't be long before conditions reverted to what they had been before the cooperatives came along to correct them. Let your minds play with this idea--imagine American agriculture without its cooperatives. It's not a prospect that I would like to envisage, for it would mean the end of our independent agriculture. For the farmer without a cooperative to turn to--would not remain independent. He would become dependent upon those who serve him. To my mind, cooperatives are absolutely essential to the effectiveness of the family farm, for the growth of cooperatives has come in response to the needs of farm people as a means of achieving economic equality with large-scale organizations.

In my work with cooperatives I have had an opportunity to watch these organizations gain in importance over the years. I have observed their great contributions to agriculture and to the nation. I have seen progress among them and I know what I am talking about. They haven't brought in the millenium in agriculture--but they have done more than anything else to make our farming industry the most productive in the world, and they have done much to enrich the lives of farm people and strengthen rural communities.

The thing that has impressed me as I have worked with cooperatives is their capacity to grow and adapt to the changing needs of agriculture. Our cooperatives in this country today are stronger, better-managed organizations than they have ever been before.

But, to my way of thinking, cooperatives still have many miles to go. In fact, they must grow and expand to do more of the things that farmers deem essential. If they were more effective organizations they could help farmers better strengthen their industry. They could increasingly take over responsibilities that otherwise must be assumed by the Government.

If I read the records of the past correctly we are moving in the direction of stronger--bigger organizations. Think of some of the mergers of the past few years--and I am sure that more are coming. Just before coming out here, representatives of the G.L.F. and the Eastern States Farmers' Exchange--two of our largest cooperatives--came down to my office to explain why they were merging to form one organization with combined sales of $300,000,000. They estimated that the new organization that is being formed to replace their present organizations will save several million dollars a year for their farmer members, and do a much more comprehensive job for them. They are planning moreover to maintain an organization that will be fully responsive to their members--through democratically selected directors and through various membership committees and publications. I mention this case because it was inconceivable only a few years ago that two of the strongest farmer cooperatives in America would be willing to submerge their identity in an entirely new organization in order to better serve farmers. Here is a trend that I think will grow. Cooperatives are increasingly going to be bigger and more powerful organizations.

In the dairy cooperative fields this same process of merger and consolidation is growing. Your own organization has been joined by other cooperatives and businesss firms in the process of growth. I can't imagine that you will not continue to expand in this way and by the steady improvement of your services.

In the past we have had many instances of competition between cooperatives. I don't consider this all bad--for sometimes it has forced cooperatives to improve their services. However, too much competition to serve the same group of farmers may be very costly, and it may be better to bring these cooperatives together and let their energies be directed to improving service for members, rather than in struggling for supremacy.

The times today require that cooperatives be operated at maximum efficiency--with costs at a minimum. Too much competition between cooperatives may provide other businesses with just the opening that they need. If cooperatives keep themselves weak by not working together for the same common ends then it's easy for other firms to step in and make a good showing.

Farmers must look at this mechanism called a cooperative in a possessive way. They must demand that they be served by organizations that place first emphasis on <u>their</u> needs rather than on any other purpose.

Today we hear a lot about <u>market power</u>. If cooperatives are going to have market power--can they do this through uncoordinated small organizations? If this is what farmers want they will need to fashion the kind of large organizations that can give it to them.

In this connection I don't want to be misunderstood. I am not in favor of large organizations just to get power or size. What good is a powerful engine in your automobile if you don't know how to drive so as to use the power wisely? However, if you need a large organization to perform functions for you, you must be sure that the organization is set up so that it will keep on the road and do what you want it to do for you. If the time should ever come when the cooperative management controls the members--rather than the other way around--why set it up in the first place?

There are many ways to achieve the advantages of large-scale operations without losing the identity of existing organizations. If farmers can federate or join together to set up a cooperative, why can't the cooperatives they set up join or federate with other like organizations to achieve well-recognized goals?

I believe the process of growth in cooperatives will come both ways. We will continue to have strong, regionally set-up organizations like Gold Spot, but I think that they will build closer operating arrangements with other like organizations. We will have systems of cooperatives that are increasingly strong.

In recent years I have followed with interest the progress of American Dairy Foods, Inc., of St. Paul, Minnesota. This organization has been formed by five regional dairy marketing cooperatives to achieve better coordination of their operations. These are: Land O'Lakes Creameries, Inc., Minneapolis, Minnesota; Twin City Milk Producers Association, St. Paul, Minnesota; Dairy Maid, Eau Claire, Wisconsin; North Star Dairies, St. Paul, Minnesota; and State Brand Creameries, Mason City, Iowa. I think the general idea of American Dairy Foods, Inc., is good. These five organizations see changes coming in their operations and they are joining together to see how they can best adjust to them.

In the past cooperatives have not always anticipated changes and as a result may have been unable to cope with them. What is happening in the American dairy industry is also happening in foreign countries. Take Denmark, for example--a land which is famous for its dairy cooperatives. Today the Danish Co-Operative Creameries Association is proposing a plan of reorganization for the Danish Creamery Industry under which each individual cooperative creamery will give up its original identity and become part of one national milk processing company. It is recognized that it will take several years to fully develop this program, but there is confidence that it will be eventually accepted.

The dairy cooperatives of this country are strong but they operate in an industry where many of their competitors are mammoth, decentralized industries. To survive and prosper cooperatives must have something more than business efficiency.

I think the answer is member ownership and member responsibility. Producers must be the ultimate bosses to protect their ownership interests in their industry and they must reap the benefits.

The most logical form of business organization for the dairy industry is the cooperative. But this claim presupposes that the cooperative is organized and operated as it should be. Unless farmers recognize this and meet their responsibilities for the upkeep of their cooperatives, other forms of business organization or Government will replace them.

We have seen how this could happen in the broiler industry. It can happen elsewhere if farmers are not on their toes--doing a job so well that no other form of organization can dislodge them.

As I have watched the growth of dairy cooperatives in this country I have seen how they have worked closely with Government officials to help build a stronger dairy industry. I know that the interests of dairy producers have been protected by the activities of dairy cooperatives which have given the producer a voice in the determination of national and state policies relating to his industry. Without your dairy cooperatives would you have been so well served? I doubt it, for I know from experience that dairy cooperatives are listened to--and that they count--in Washington.

In this talk I have tried to express my conviction that you can't overemphasize the importance of dairy cooperatives to producers. They need them more than some seem to realize. In the years ahead I believe their importance to dairy farmers will become much more widely recognized.

One final thought--the better we make our cooperatives--the greater their importance to us will become. You who are members, officers and employees in Gold Spot, and others like you in other cooperatives, have their destiny in your hands.

CREDIT UNIONS--WHERE WE ARE 1/

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I am going to start my talk by referring to something very current and then will work back. The current item that I wish to call to your attention is an article in the Credit Union Magazine for February, 1964, which came to my desk just as I was starting to prepare my remarks for this occasion. The article has this interesting title, "Bankers Say: They'd Like to Know Us Better." I was intrigued by this subject and I read the article with a great deal of interest, for I had been of the impression that a number of bankers did not want to know credit unions any better. This article is quite persuasive and I think it is very encouraging. The views of the various bankers interviewed indicated that when they came to know credit unions they were inclined to be fair and friendly toward them.

This article brings out the great need for communication, for better understanding toward all kinds of cooperatives, credit unions among them.

I am of the general opinion that there is a great reservoir of good will toward cooperatives that we have only begun to tap. I think that it is partly the fault of the cooperatives. Too frequently, those involved in cooperatives assume that everybody is against them. Instead of constructively teaching people how cooperatives do not work to their disadvantage, they take the opposite tack and assume that people should know this without instruction. This brings about the very kind of criticism and censure that they would like to avoid.

I have always believed that there is a place in our communities for all kinds of business enterprises--cooperatives as well as those that are operated primarily for profit. I do not look upon cooperatives and credit unions as something apart from the private enterprise system that we are so proud of in the United States. Rather, I look upon cooperatives as a foundation stone for private free enterprise--an alternative system for those who want to serve themselves.

It has been my experience over the years that much of the concern expressed about cooperatives of all kinds has been due to a misunderstanding of their objectives and methods. Cooperatives, like all other forms of business, have to gain respect by the character and quality of their operations and methods. If they can make clear the fact that they are built to serve the interests of their members and if they can gain respect for the principles they live by, their future is assured.

1/ Talk given at the Rural-Community Credit Union Conference, February 25, 1964, Kansas City, Missouri.

The article also describes how various credit unions have developed Banker Nights--when bankers are brought to meet with members of the credit unions to find out how they work. I don't know that I wouldn't prefer to use the term "Community Nights" so that many others in addition to bankers would be invited to such meetings. This might be especially applicable to credit unions operating in rural communities. Rural credit unions might conceivably have such nights for businessmen, including other cooperatives, and representatives of all professions--the ministers, the lawyers, the doctors and dentists, the teachers, and the bankers. This is just an idea that I would like to suggest that some rural credit union experiment with and if they do, I hope they will let me know how it works.

I became interested in rural credit unions while I was Professor of Marketing at North Carolina State College, Raleigh, North Carolina, from 1929 to 1934. I was in charge of cooperative work for the college and in seeking information on cooperatives I ran into the records of several rural credit unions. I didn't realize it at the time but later I found that North Carolina had been a real pioneer in experimenting with the credit union kind of cooperative association.

John Sprunt Hill--a prominent North Carolina banker--had been a member of the American Commission appointed by President Wilson which went to Europe to study agricultural cooperation and credit--including "Cooperative Rural Credit Unions"--in 1913, and he had come back enthusiastic on the possibilities of rural cooperative organizations of the credit union type. In 1915, largely as a result of his interest and that of Dr. Clarence Poe, Editor of the Progressive Farmer--who was later a good friend of mine--North Carolina passed a Rural Credit Union Act which provided for a State Superintendent of Credit Unions and a Division of Credit Unions in the State Department of Agriculture to give them encouragement and supervision.[1/]

By the time I got to North Carolina in 1929 the rural credit unions that had been set up following the passage of the 1915 Act were fading out, possibly because of the false prosperity of the late twenties. I remember conversations at about this time on rural credit unions with Dr. R. O. Moen who was a professional colleague. In fact, he was Professor of Finance at the College. Dr. Moen, as some of you may know, wrote a book, published in 1931, entitled Rural Credit Unions in the United States. It was largely based upon his direct experience working with credit unions in North Carolina in the mid-twenties as State Supervisor of the Credit Unions. Moen's book contained statistics which showed that there were 36 rural credit unions operating in North Carolina in 1926, with total resources of $106,589.11. I think this was the high water mark but it seems a very small amount to us today for even one rural credit union.

[1/] To get an idea of how far cooperatives have come since 1915, see the book published by Clarence Poe in that year, entitled, How Farmers Cooperate and Double Profits."

It's worthwhile to read Moen's book now to see the extent of progress during the past 40 years. However, in another 40 years our records of today may look as insignificant as these old records now seem to us.

Moen called attention to the fact that "the only state in which purely rural credit unions have ever had any real existence was North Carolina." He was inclined to feel that one of the troubles in North Carolina was that the early organizers had been too emotional.

I have another memory of my Raleigh days that I want to share with you. The great credit union organizer, Roy F. Bergengren, came to Raleigh in 1931 to meet with a group of us in the college who were interested in the possibility of setting up a credit union for faculty members. Bergengren was a dynamo and I recall him vividly. Soon after his visit we had a credit union operating.

These were bleak depression days, for in 1932 and 1933 our banks in Raleigh were failing one by one. We worried about our small credit union deposit in one of the commercial banks but fortunately that bank survived.

When I came to Washington in 1934 to direct research and educational work with cooperative purchasing associations for the Farm Credit Administration, the Federal Credit Union Act was just being passed and a credit union section was being established within the Farm Credit Administration. (This is now the Bureau of Federal Credit Unions, located in the Health, Education and Welfare Department.) Contacts with this section in the mid-thirties kept me in touch with credit union affairs. Claude Orchard was a very fine and capable head for this program of work, and we owe him a debt of gratitude for his efforts and stimulation.

It was at about this time that I met Mr. Edward J. Filene, the great philanthropist and the inseminator of the credit union idea in the United States. I well recall his talk when he addressed the Cooperative League Congress in Columbus, Ohio, in 1937. At that time I didn't fully realize what a great man he was but as I have read his articles and books I have come to know of his generous humanitarian activities and to appreciate how much he contributed to sound business and sound cooperative thinking. He was one of the great cooperators in the tradition of Robert Owen, Frederick Raiffeisen, and Horace Plunkett.

How little do we appreciate how much we owe to the pioneers who cleared the ground ahead of us! The lives of men like Filene and Bergengren are well worth study today to give us courage and inspiration.

After the early work with rural credit unions in North Carolina there wasn't very much activity along this line in any other State until it was picked up by the State Farm Bureau Cooperative Association of Indiana, Ohio and Pennsylvania in the early thirties. We have in our files a very interesting little mimeographed report by B. A. Wallace of Ohio State University, entitled Credit Unions for Ohio Farmers. This was only a general statement, but it is interesting that Wallace saw the opportunities and possibilities

for this kind of cooperative organization. He said, "One recognizes that as far as rural America is concerned the credit union has yet to make its way." He foresaw great opportunities for sound expansion but he cautioned that "the credit union can go no farther in any locality or state than the spirit and sacrifice of its members will carry it." He saw that credit unions could be "of enormous help to small borrowers and at the same time teach thrift and the intelligent use of credit."

In the thirties there was a real cooperative ferment. New ideas were in the air and enthusiasm for cooperation of all types ran high. Organizations like the Indiana, Ohio, and Pennsylvania Farm Bureau Cooperative Associations and the Consumers Cooperative Association and several others, well known today, were just getting well established. One problem was giving cooperative purchasing associations a lot of trouble--the control of retail credit. This was a problem of great personal interest to me for I had written my Master's thesis at the University of Nebraska on "The Control of Retail Credit."

As I found myself making a number of studies of the credit problems of farm supply purchasing associations, I became interested in the possibilities of credit unions and production credit associations as agencies that could take over part of the credit burden and free these associations from some of their financing problems.

In Indiana, Harvey Hull and others had begun to experiment with rural credit unions in 1930, and quite a number were flourishing by the end of the decade. Warren Mather, Chief of our Farm Supplies Branch, made a study of a few of these Indiana credit unions in 1941, which showed their potentialities.1/

Here at the CCA, one of the early big headaches impeding growth was uncontrolled retail credit. I made studies for the CCA on this problem in 1937 and 1938 to help them get credit under control and I have never worked on a job more important, and I look back with a great deal of satisfaction on the results that were achieved. One thing that grew out of this study was a recognition of the need for credit unions, and the real beginning of the credit unions in CCA territory dates back to the emphasis given to credit control and cash trading by CCA under the leadership of Glenn Fox.

Farmer Cooperative Service was not able to give much attention to rural credit unions during the war and postwar inflationary years, but in the mid-fifties we were able to set up a modest research and educational program under the leadership of French Hyre and Arthur Pursell. As you know, we have since made several studies and issued a number of reports dealing with rural credit unions. This has given us a much better idea of how these credit unions can contribute to cooperative and rural development activities.

1/ In his book, Built of Men, published in 1952, Hull describes the growth and significance of the credit unions in Indiana. He pointed out that the credit unions had helped the county cooperatives build sales volume.

The recent emphasis on rural areas development by the United States Department of Agriculture has directed attention to the importance of credit unions as a device through which local groups can improve their economic position, and this interest has given rural credit unions broader recognition. We prepared a brief Rural Areas Development pamphlet to explain how credit unions can help in the RAD program and this has been widely distributed. Only last week we had a request for 7,000 copies of this pamphlet from the National Grange-Sears Roebuck Foundation for use by Granges in its Community Progress Program.

On July 27, 1962, the Department of Agriculture issued the following statement to clearly express Departmental policy with respect to the use of all types of credit institutions in the RAD program.

> "Private credit institutions in rural areas provide needed financial resources for economic development. Many of the economic development objectives of rural areas are dependent upon additional capital, which must be obtained through credit. Appropriate steps shall therefore be taken to assure the full utilization of all types of private credit institutions, such as banks, insurance companies, credit unions and individual investors, as well as the various institutions of the cooperative farm credit system, in the rural areas development program."

I am sorry that Assistant Secretary John A. Baker could not be with us for he is deeply interested in your conference objectives, as indicated by his letter to Bob Dolan, which is reproduced in your conference papers. I wish to call your attention to the last paragraph of his letter:

> "Every effort is required to fill completely the gap of credit availability in rural areas. By far the greater part of this must be done by private cooperative and proprietary financial institutions. Many of the needed new enterprises in rural America because of high risk in initial phases probably cannot be fully financed through customary commercial channels. Your interest in developing ways to meet this problem without exclusive reliance upon government sources of credit is in the American tradition of cooperative self-help among families with a community of interest in bettering their status in life."

Our work program in Farmer Cooperative Service has not enabled us to do much special work with credit unions in the past two years. However, we have done one job that I am very proud of--the little case study of the Romney Federal Credit Union in Romney, West Virginia, by Jim Black of our staff. We need more studies of this type for other local credit unions. What one community can do, others can do. Such studies give examples that can be drawn on by credit union groups in other areas.

Why did we select the Romney Credit Union for study? I think the answer is that it had a good reputation and there were lessons in its experience to profit by. It was of a general community type. It had several years of experience. It was nearby and we could do it economically.

Although rural credit unions represent but a small fraction of the total credit union business in the United States--which now represents over 5 billion dollars in loans outstanding, and over 6 billion dollars in shares and deposits--they are far from insignificant today. This is shown by the following facts developed for me by French Hyre, Chief of our Rural Services Branch.

Growth of Rural Credit Unions in U. S. From 1956 to 1962.

	1956	1962	Percent Increase 1956 to 1962
Number of rural credit unions	525	681	30
Number of members	145,492	267,856	84
Amount of shares	$47,213,402	$107,345,648	127
Amount of loans	$41,319,577	$97,031,266	135
Amount of reserves	1/	$5,999,315	1/
Total Assets	$52,160,894	$120,590,848	131

1/ Data not available.

Source of Data: Data for 1956 obtained by FCS from State Leagues.
Data for 1962 assembled for FCS by CUNA.

Rural credit unions still do a relatively small proportion of the credit business compared to other agencies which make non-real estate loans for farmers. For example, as of January 1, 1963, commercial banks held 70 percent of all outstanding loans to farmers; PCA's 21 percent; FICB's 1 percent; FHA 7 percent; and rural credit unions 1 percent.

It is also of interest that rural credit unions now operate in most of our states. The ten states at the end of 1962 with the most rural credit unions were as follows:

		Number in State
1.	North Dakota	68
2.	Kansas	59
3.	Minnesota	54
4.	Wisconsin	48
5.	California	47
6.	Michigan	40
7.	Indiana	34
8.	Colorado	24
9.	Montana	22
10.	Texas	20

When one looks at the nation as a whole it will be observed that the number of credit unions is greatest in the North Central States, but that they are found in all regions:

West North Central States	225
East North Central States	149
Mountain States	87
Pacific States	58
Northeastern States	57
Southeastern States	40
West South Central States	39

To me it is of interest to see how the rural credit unions have been sponsored. Cooperatives have sponsored 292; rural community groups, 216; rural churches, 85; farm organizations, 78; and others, 10.

The above classification tends to understate the role that farm organizations have played in sponsoring rural credit unions. For example, many of the cooperatives sponsoring credit unions are themselves affiliated in one way or another with a general farm organization. Local county Farm Bureau cooperative associations, Grange cooperatives, and Farmers Union oil companies are examples of this. Sponsoring associations of this type have been arbitrarily included in the "cooperative" group.

I don't think that your group needs me to stress the ways in which credit unions can help improve rural conditions in America. But I do think that your group should give consideration to the way this story can be better presented throughout the rural areas of this country. Sometimes cooperatives of various types are oversold on the basis of sentiment. I would prefer to see cooperatives of all types gain recognition for their basic economic and social contributions. "If they can't stand the heat," to paraphrase President Harry S. Truman, "they should stay out of the kitchen."

I hold also that rural credit unions need a lot more research attention. We need to know more on just what they can do--and how they can best work--under various kinds of rural conditions.

You might ask yourselves this question: What is holding back the growth of rural credit unions? Few have been formed in the past year or so. Why? Where could they make a contribution? Why aren't regional cooperatives giving them more encouragement? This kind of problem requires study.

John E. Eidam, President of the Omaha Bank for Cooperatives, gave consideration to the reasons for the relatively slow growth of rural credit unions in his talk at the American Institute of Cooperation in 1958 on the "Progress by Rural Credit Unions." His general conclusion seemed to be that not enough people understand how rural credit unions render a needed supplementary credit service for American agriculture.

Few things in this country move very fast without a little promotion. The old better-mouse-trap adage isn't too applicable in these days unless the mouse trap has T.V. or other types of modern sales effort.

As I have worked with farmer cooperatives of all types I have come to the opinion that we must strengthen the cooperative movement at the base. Individual farmers cannot be ignored. In these days of big business organization it is essential that our local institutions keep up the neighborly spirit to the extent possible. Credit unions aid and encourage people to participate in something of interest and of economic value to them--to be part of a great idea.

In our work with cooperatives we should never forget that the act of cooperating is in itself important. In the days ahead in which leisure is going to play an increasing role we must find ways to use this fact and develop more activities of interest to people. We can anticipate that people are going to have more time to do things for themselves, including the running of cooperative organizations and credit unions. We should take this into account in our planning for the future.

Preliminary Draft
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THE KEY MANAGEMENT PROBLEM

By Joseph G. Knapp, Administrator
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Recently in conferring with the man in charge of distribution for a large federated cooperative association, I asked this question, "What is your most important problem?" Without hesitation, he replied, "Getting good local managers."

He went on to explain the problem. Whenever a local member association needs a manager because of retirement, death, promotion, or for other cause the local Board of Directors usually requests help from the district field manager in finding a suitable replacement. Then the problem arises to find the right person to recommend for the vacancy. This isn't easy. There seems to be a scarcity of the kind of persons needed.

As we discussed this problem my friend indicated that good local managers are hard to come by. There may be a promising man doing a good job in another association but if he is moved to fill the vacancy it may upset an already successful operation.

My friend cited a number of cases to amplify his point. Then he said, "I wonder how other regional federations are meeting this problem."

I decided to find out so I wrote to the managers of eight well-known regional associations to determine how important they considered this problem and how they were coping with it. Without exception, the replies received indicated that this was indeed a serious matter.

One said, "There is no doubt in my mind but what our greatest need is for more capable managers at the local cooperative level."

Another said, "Your letter opens up a real basket of snakes."

Another said, "This is the greatest question among cooperatives and perhaps also the greatest question confronting businesses of all types today."

Another said, "Often we are right down to the bottom of the barrel and we do not have people qualified to handle the positions as they open up."

All of the managers who replied indicated that their associations were working on this problem with varying degrees of success. Some were confident that they had it under full control.

Association A. reported that it conducted two management-training schools each year. These were 4-week courses and the people who attended were selected from the personnel of the local cooperatives. There were about 20 students at each school. This program was proving to be the best source of managerial replacement but it was becoming increasingly difficult to find competent trainees. The manager also said, "We are constantly urging local managements to upgrade their hiring so that we have more potential managerial talent working at the local cooperatives."

In addition to the management-training school this association was experimenting with a plan of taking graduates from agricultural colleges and placing them in local cooperatives for a training period. This arrangement wasn't working too well because it was found that college graduates wanted to move faster than local management could train them. One of the problems here seems to be that when a local manager hires a man he wants to put him on a specific job. It is therefore difficult to get the trainees broadly enough trained in enough phases of a cooperative's operations so that they will be properly equipped to take over the full job of management.

This association reported another problem. The local boards of directors, made up of farmers, are generally reluctant to take on a young man who has not already had actual management experience. They want to obtain someone who has already made a good record.

Association B. has a policy of helping its member associations find managers but it is "always short." An attempt is made to keep an inventory of managerial talent but the demand generally exceeds the supply. This association,to the extent possible, tries to get its managers from within the ranks of its member affiliates. It has its own training program and it also cooperates with the State university and with the State Council of Farmer Cooperatives and others in managerial training programs. One of the problems is to get men with a broad knowledge of agriculture as well as with a broad understanding of general business operations. It's not been hard to get specialists such as agronomists and nutritionists but it has been difficult to obtain good generalists. Some managers have also been acquired from competing concerns. Sometimes this has worked but often it has proved unsatisfactory. It seems to be difficult to re-orient certain individuals to the cooperative plan of operation.

This association has found that it's not always easy to figure out just who will make a good manager for a given local unit. Sometimes good managers have been transferred from a successful to a weak cooperative with unsatisfactory results.

Association C. keeps something of an inventory of managerial talent in that all of the top staff of the organization report to one person any requests that they may have for managers. This man keeps a general fund of information on any person who is deserving of more responsibility and of all persons who are on the lookout for better positions. At least this plan centers the job with some success. The manager of this regional

association believes that some progress has been made. He considers it most important to have local managers who are always building someone to take their places. Unless a local manager has a good second man who can take over his responsibilities he is usually not selected for advancement. He also thinks it's very important for managers to have had actual operating experience under good managers. He believes that if this principle were more generally established it would upgrade personnel generally.

This regional association manager believes that the consolidation of cooperatives is resulting in more good men becoming available. He thinks that keen competition for management jobs may improve the situation. However, it's this manager's general view that there probably never will be a plentiful enough supply of the type of good managers who are needed. At least he feels that it's good to take the attitude that if management were satisfactory it would be an admission that no improvement could be made. He thinks it's best that the supply of the right men is not considered sufficient to meet full demands.

The manager of Association D. says, "We have not been able to keep an adequate inventory of managerial talent." He maintains that under competitive conditions it is simply not possible to afford to carry first-class persons in a semi-productive capacity. He says that the right kind of man will not accept such a status for more than 30 to 60 days. This association manager also indicates that the qualifications for a manager are continuously rising, so that "you can no longer use a nice farm boy." "Now," he says, "you need professionally trained management." One problem here is that many of the kind of persons wanted will not move to small country towns. Another problem is that many of the local directors do not grow with the business, and first-class managerial talent will not accept the manager-board relationship which is often imposed on them by inadequate directors. This association carries on a continuous series of conferences and training schools.

The manager of this association holds that one of the main things is to get the organization set up on such a basis that the units in it will provide an opportunity for a good manager. He believes that one of the main troubles is that generally farmers do not invest enough in their cooperatives to attract first-class professional personnel. There is too much of the "something-for-nothing" philosophy and not enough realization of what it takes to really build an organization and get the right kind of personnel to manage it.

The manager of Association E. reports that the problem is particularly acute in his area because of the high rate of agricultural business activity, with capable manpower in short supply. He says that effective employees of the type needed are courted and favored by industry and as a result it is very difficult to attract them to the cooperative field. He arrived at the conclusion long ago that the only way to solve the problem was to adopt a scholarship program to provide high school graduates with the necessary college training. So far, not much has been done along this line but he

believes that it would work. He thinks that something in the way of a partial commitment should be obtained from college students in their junior year. Well, this is something to watch, for there are few associations that have gone very far in carrying out this idea. He thinks that a federation should also have some centralized retail outlets that it can control so that it can place some of the trained people in these jobs until they can be otherwise placed.

Association F. has long had a training program and men are trained from within, and they are also usually obtained from colleges or universities. It is understood that a man is going to have a certain amount of training as a basis for future promotion. One thing found necessary is to make it clear to local boards of directors that they must pay reasonable salaries in order to attract competent people. No matter how good the training program may be "you have to have an incentive so that there will be an opportunity for the men after they have their training." The manager of this regional points out that the difference in the success of an organization, as shown by per-unit returns and per-unit costs, will frequently reflect the caliber of the manager in charge.

In Association G. considerable attention is given to developing managers and providing for the upgrading of local managers. This regional feels that progress is being made and that "the training program is resulting in providing above-average managers as well as some run-of-the-mill boys." Usually trainees are taken from the agricultural colleges and they are generally required to have a rural background. They are given general aptitude tests and attention is directed to improvement of certain personality traits. A limited number of trainees are kept always available to meet the demands for local managers or for work in the regional organization. Good salaries are paid, and when an applicant is selected he is brought in and given several weeks of training. Then he is placed in one of the larger local associations for a year or so under the sole supervision of the local manager. This association pays about half of the salary and payroll taxes during the training period. The local association responsible for the trainee agrees that the regional has the right to require attendance at various special commodity-training schools, and certain special training such as in credit and collection, and in accounting procedures. Frequently, a trainee will be found unqualified for a manager's position while he can be used for a time in some other capacity. This enables the association to have seasoned trainees available. Through this program assistant managers are frequently given the opportunity to become managers. Often, trainees, while in college, work one or two college quarters each year or part time with the association. This seems to be working successfully.

There is a growing recognition in this regional that growth requires more capable management at the local level. All in all, this association holds that its program is working with considerable success.

The last regional in this series--Association H.--has a very comprehensive program to improve management in its member associations. For one thing, a continuous program is carried on to upgrade present managers. This is done through various kinds of meetings, and through the work of field personnel workers. Also, a conscientious effort is made to move up managers from the smaller to the larger cooperatives. Cooperatives have been taught to look to their regional field managers to help them find suitable personnel. An effort is also made to develop department managers within member cooperatives. As organizations grow in size there is more call for the departmentalization of operations to improve efficiency and accountability. Managers are encouraged to develop written personnel policies, job outlines for all employees, employee salary programs, and employee appraisal programs. A continuous effort is made to teach managers how to delegate responsibility as this is one of the great weaknesses inherent in most of the member associations. The regional association also carries on various short courses on operations and premanagement schools. These are designed primarily for new managers, prospective managers, department managers, and management trainees.

In addition, home study courses of various kinds are available to help any individual improve his capacity in the area of management. These courses are helpful to the manpower trainees if they have an interest in getting ahead.

Continuous effort is made to improve management and manpower development. This is stressed at every logical opportunity--at managers meetings, annual meetings, directors conferences and district meetings. Manpower training programs have been carefully designed and various publications have been prepared to help in this program.

It is apparent that this regional is working on this problem from almost every conceivable point of view and is having very good results. Trainees have shown considerable improvement in handling actual operating situations.

At the present time the personnel division of this organization is engaged in a research study of its present member association managers in an attempt to find out the personal and business characteristics to be found in a successful manager. It is hoped that this will provide guidelines for the future development of managers.

General Comments

The various procedures used by the eight regional federations, as described in this report are showing good results. Of course, much depends upon the spirit of the organization and the way in which the program is carried on, but with imaginative leadership and with good systematic organization there is no reason why programs of this kind cannot produce a supply of very competent managers and general improvement in the caliber of management performance.

It is important for any cooperative to find out how these organizations and others are meeting a problem that is giving concern. There is a great deal of experience available if we know how to take advantage of it. Oftentimes much can be gained if we will just open up to others the nature of our problem we can get some suggestions from those who have met a similar situation.

One question that all cooperatives have, is: How do we measure management effectiveness? We usually think of managers as Excellent, Good, or Weak. But why do we put them into these categories? Just what are we looking for? Can any man be trained or built, or is there some special aptitude required? If so, do we build or develop managers through training programs who have the qualities we want--courage, initiative, honesty? There is such a thing as training these very qualities out of people. In these days of increasing social conformity we need more than simply ability to comply. In our leaders we should expect a tendency to ask discerning questions of those in authority rather than habitual compliance.

Then another question all cooperatives have, is: How do we give people drive? Is it something they have or don't have? Can we encourage it? Can we encourage ambition? Is a man more concerned with safety and with comfort than with achievement? It seems to me that we must help give people vision. We must give them something to strive for. Much can be done, I think, by studying really good managers and then encouraging young men to emulate them. How do men rise in environments, especially in the area of management? Why is one person the type that can take over added responsibilities and why is someone else not given the job?

The image of cooperatives must be good if young people are to join them as employees. They must see a future in them--a challenge. Do we make the job of being a cooperative manager attractive enough? If cooperatives aren't careful they will build a lot of good managers that have no place to go and then they will leave for greener pastures. They must build organizations which have a promising growth future for their employees.

Are there personal or business characteristics that can be determined before employment which will forecast, with reasonably high probability, future managerial success? This ties to the question of getting the right kind of employee to begin with who can be trained or developed. Many of the big corporations go out and recruit from the top of the graduating classes of the universities and pick off the cream of the crop. It is rather difficult for cooperatives to do that but perhaps they could do a lot more along this line than they do. At least, the big corporations recognize the importance of scholarship and ability and they are now putting more emphasis on other qualities than simply attractive personality.

Another problem that many cooperatives haven't grappled with is the problem of management succession. There are too many managers who are not sufficiently interested in having competent people that can take their places.

They are still afraid that if a good man comes up under them they will find themselves pushed out of the job. This is of course a measure of weakness. A really good manager will not be afraid of a good man working under him. He will find an opportunity for that man in another organization, if possible, if he can't give that man an outlet himself.

Then again, cooperatives must take into account the fact that a nice farm boy--unless fortified by training and experience--may not have the qualifications for the position called for in today's business circles.

The manager of a county association or a good strong local can be a very important person in a community and if he does well he should be able to reach out and go into other areas later on.

Several of the associations mentioned above claimed to have an inventory of management people but I wonder whether they really work at this and how much this inventory means. Do they really pay as much attention to the supply of their personnel as they do to the supply of the product that they sell? I believe that much more work could be done in studying this problem--of how to develop a good personnel inventory for a given organization. It's one of the assets that should be husbanded.

Again I think that there should be more transfer of cooperative personnel between regional organizations. This would result in cross-fertilization. There is no reason why a man who joins one Regional Association should not sometime work for another. Perhaps we need something like a national (or regional) cooperative employment register so that good men will not be lost to cooperative organizations simply because there are not sufficient opportunities for a man's development within one regional organization.

The subsidizing of students through college scholarships is something that should be given more attention. The Union Equity Exchange of Enid, Oklahoma, has made effective use of a program of this kind since 1939, and many of the key positions in Union Equity are now held by scholarship graduates. A good description of this program is given in an article entitled, "Union Equity Invests in the Future," in the News for Farmer Cooperatives, for February 1958.

If regional cooperatives are to look to the colleges to help them train future personnel they will also have an interest in how well the colleges are training men or women for future work with cooperatives. If cooperatives are giving material assistance to a young man or a young woman in college they will feel a greater organizational stake in the type of curricula provided. If colleges know that important cooperatives are closely watching the education they provide this will help them better train people for cooperative employment. Unless cooperatives work closely with the colleges to see that training for cooperative work is not neglected they cannot expect the colleges to satisfy their requirements.

I recently read a highly interesting article in Personnel (May-June, 1964), a publication of the American Management Association, on the subject, "Is Business Developing the Right Managers?." Some of the elements that seem to be needed in the times we are now living in, according to Dr. Bernard J. Bienjenu the author of this article, are perceptive aggressiveness, flexibility, and creativity. In this article there is this very interesting sentence: "Too many companies are overconcerned with a manager's ability to get along with others. The people who are primarily interested in maintaining good interpersonal relations are seldom endowed with the characteristics of perceptive aggressiveness, flexibility, and creativity. These are far more likely to be accompanied by bluntness, impatience, a sharp critical sense, and little concern with niceties of behavior." The writer says that it is his experience that many of the young men who display the executive characteristics most needed for the future are the very ones that many companies decline to hire. The article also stresses the importance of the generalist approach so as to give a man broad training. "To foster the generalist approach the employee should be rotated within and among the various functions long enough for him to become thoroughly familiar, not only with each function but also with its relation to the organization as a whole." The article also stresses the importance of the climate in which a man develops. The climate of the organization is a very important thing. What do we mean by "the climate of the organization"? A good climate will provide for the growth of strong people. Cooperatives should be proud of the climate they create for their personnel.

WHERE DOES COOPERATION STAND TODAY? 1/

Do the conditions of the mid-twentieth century and the spread of cooperation to new countries, new sectors and new conditions call for a re-thinking of cooperative aims and methods or a new definition of principles?

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

I have been asked to speak to you on this subject: do the conditions of the twentieth century and the spread of cooperation to new countries call for a re-thinking of cooperative aims and methods or a new definition of principles?

On the basis of my primary experience with cooperatives in the United States I am inclined to say first that the general principles of cooperation are not in need of serious revision. They have demonstrated that they can be flexibly applied to meet the revolutionary changes that have occurred since the Rochdale pioneers in 1844 gave us a set of working rules - which some think of as immutable laws. I don't believe that the pioneers would be too unhappy if they were here today - but of course they would need to be brought up-to-date. At least one of their ideas is reflected in this Commonwealth Conference - the need for continuous expansion through cooperative education if cooperative principles are to be spread throughout the world.

Moving a bit nearer to the present, Sir Horace Plunkett some 75 years ago developed the concept of agricultural cooperation on the Rochdale foundations. In doing so he clashed with those in the consumer cooperative movement who could not conceive of cooperation by and for agricultural producers. To the consumer cooperative theorists of his day - Beatrice (Potter) Webb and John Mitchell who guided the Cooperative Wholesale Society to greatness - consumers only were to form the "Cooperative Commonwealth".

Plunkett more than any one person broadened the conception of cooperation. Or we might say he developed the conception of agricultural cooperation. He did not oppose consumers cooperation as a form of cooperation needed by consumers, but he recognized that agricultural people needed a form of cooperative business, adapted to their own industry ends.

What Rochdale pioneers did for consumer cooperation in giving it a form and substance, Plunkett and his associates in the Irish Agricultural Organization Society did for agricultural cooperation.

1/ Commonwealth Conference on Agricultural Cooperation, Exeter, England September 17, 1964.

I cannot spend time here in explaining why I consider Plunkett so important. To some, he is looked upon as very much a back number - a kindly old gentleman who meant well, as a sort of Pickwickian character as far as modern industry is concerned. Recently a leading English agricultural economist, at a meeting of his learned society said "Have we really been taken in by the 'frothy evangelism' of Plunkett style cooperation?" I wonder how much this person knows of "Plunkett style cooperation". Did he ever examine the work and writings of Sir Horace Plunkett? Did he ever know of the influence that Plunkett exerted in the United States, Canada, England, India, and various other countries?

Did this critic of "Plunkett style Cooperation" have any conception of the breadth and richness and modern-ness of Plunkett's philosophy? Did he know that Plunkett stood for "Better Farming, Better Business, Better Living"? - the slogan that appealed so much to President Theodore Roosevelt in the United States. Did this critic realize that Plunkett saw cooperation as the business centre-pin for better farming and better living? In fact, Plunkett saw the three as integrated, with each affecting the other. "Better farming" was essential to "better business" and "better business", through cooperation, was essential to "better farming", and "better living" was a necessary incentive to "better farming" and "better business" and also it was the goal to be sought.

I have read the record of Plunkett's life. I have read the annual reports of the Irish Agricultural Organization Society since the first one was issued in 1894. I have read the issues of the Irish Homestead in the early 1930's under the editorship of the greatest agricultural cooperative journalist of all times - "A.E." - George Russell. I know that if there is any one thing that is a slander to the record of Sir Horace Plunkett's career, it is that he was a "Frothy Evangelist". Plunkett was an idealist but a practical idealist. If there is any need to prove his practicability let me say that he proved his hard headedness by making a fortune in America and that he then proved his idealism by spending most of his fortune to further agricultural cooperation throughout the world.

The program of technical assistance to under-developed areas of the world which have proved so useful within the last twenty years, simply carry forward the great conception of Sir Horace Plunkett. Plunkett House in Dublin, just before World War I attracted agricultural leaders and students from all parts of the world, and its influence has been incalculable.

The Plunkett Foundation for Cooperative Studies was made possible by Plunkett's personal generosity and this Conference can be said to be a child of his foresight. I believe that the first conference of this type in the 1920's was called an "Imperial Conference". We have progressed now to "Commonwealth" and I am pleased that I can represent the United States, a former British colony, in this fraternal gathering of cooperators from all parts of the Commonwealth.

I said earlier that the general principles of cooperation are still serving us well. I think this is generally true - that cooperatives are concerned today with serving people as users whether they be consumers of goods and services or producers of farm products or services.

But, when we come to methods of cooperation, this is something quite different. We cannot use old methods of cooperation, any more than we can use old methods of transportation or old methods of communication. A horse and buggy or cart is today an anachronism, at least in most parts of the United States, but I can remember even in England when there were few tractors. Typewriters and duplicating machines have taken the place of handwriting. So also is a cooperative system an anachronism which is built entirely on little shops such as the one that was made famous by the pioneers.

Today, cooperatives that are successful, whether agricultural, industrial or consumer, must be in line with the times. I believe that this is generally true for all countries. In my own country I have watched organizations grow from simple ideas into large cooperative structures with turnovers of one hundred million pounds or more. Six agricultural cooperatives in the United States are listed by "Fortune" magazine, among our 500 largest industrial corporations.

These present day cooperatives are largely integrated organizations. They serve extensive areas and they may engage in manufacturing, processing, transporting, wholesaling and retailing. These organizations operate in accordance with the "old" cooperative principles, but as modern business organizations they employ every technique which is used effectively by other business concerns.

A major difference between the cooperative and its non-cooperative counterpart is that the farmer is guided democratically by the representatives of the owner/users through elected directors while the latter is guided generally by the directors' representatives of the stock owners who are more generally appointed than elected. The two forms of organization are quite comparable in form, but the first is much more democratic in character and much more responsible to those who are served by it.

There is a difference in purpose in the two forms of business organization and in the ways in which they distribute net returns, but in external methods of rendering services there is often little apparent difference.

I received the invitation to make this talk only a few days before I left Washington, but before I left I asked several of my friends and associates for their views on the question given me for discussion. I would like to quote here from some of the comments received: -

First, I would like to give you the views of Jerry Voorhis, Executive Director, Cooperative League of the U.S.A.

> "With respect to the cooperatives in the so-called developed countries which have a history behind them and are well established in those countries, I see no reason whatever for a modification of the basic principles of cooperation. What I do see is that they have to apply them differently. For example, democratic control is quite meaningless if it is carried on by an annual meeting in a cooperative with hundreds

and thousands of members. In such cases, just as was the case with political democracy, a representative system has got to be used."

My colleague Dr. Martin A. Abrahamsen, in the Farmer Cooperative Service says this: -

> "I do not believe conditions of the mid-twentieth century require a new definition of cooperative principles. That is, if we interpret principles in terms of: (1) patrons of a cooperative, realizing the benefits of its operations, and (2) controlling its activities. In other words, if the persons who patronize or use an organization are the ones who benefit from and control it, I see nothing to change this basic concept."

Dr. Abrahamsen concludes: -

> "Our thinking and emphasis ought to be on methods and techniques to deal with new services and new conditions. In my mind the basic principles are still good and what we have to do is to use our imagination in developing the techniques necessary to adjust to change."

Another of my colleagues, Dr. J. K. Savage, who also has had experience in foreign countries, says this: -

> "Change is needed. My reaction to this is that what is really needed is a better understanding of present aims, methods and principles. Certainly, in this country this is true. Even many of our cooperative managers, employees and directors need a better understanding of this form of enterprise."

Another of my colleagues, Dr. Homer J. Preston, declares: -

> "It seems to me that by far the most important is to intensify the use of known and proved principles and practices. The reservoir of know-how to put such principles and practices into viable cooperatives is tremendous. Perhaps the most effective use of resources might be in this direction rather than seeking new principles and practices."

Dr. Irwin Rust, another of my colleagues, makes this statement: -

> "Cooperatives today have an opportunity to make their greatest contribution to human welfare. Their time tested aims, methods and principles need to be reaffirmed in terms of this opportunity."

I would also like to give you the views of a former colleague who has had long experience working with agricultural cooperatives in every part of the world, Mr. J. H. Heckman.

"The principles of cooperatives as economic and social democracies for providing goods and services at cost to their patrons are the same and unchanging around the world. In all areas, however, methods and practices must be constantly adapted to the ever-changing economic and social conditions. In a competitive economy this is essential. In all countries the methods and practices must be adapted to the culture and customs of those countries. This is especially important to be kept in mind by those from other countries assisting cooperatives in new areas. These customs and cultures are frequently very different from those of the country giving assistance. Thus, while the principles will be the same, the methods and practices carrying them out will be different. Again, this is an essential point to be kept in mind by people in other countries giving assistance."

I have taken only a few excerpts from the full statements of my colleagues as my time is limited.

I would like to say though, that my own experience and that of many of my friends and colleagues who have worked with cooperatives in all parts of the world both in developed and under-developed areas, have all come to sum up in the same general conclusion.

Cooperation is not a panacea that can be quickly applied to meet all of the economic and social problems in all areas of the world but it is a form of enterprise that if wisely used can be of great use where other businesses cannot perform so well.

I hope that you will not feel that I am taking a dog in the manger attitude with regard to old principles. I am simply saying that cooperation is a revolutionary concept, which can be shaped to meet the needs of new times and new conditions.

I don't have time here to discuss the large questions involved in the adaptations of cooperatives to change. These involve such matters as the provision of competent management, the importance of insuring adherence to cooperative principles as cooperatives grow in coverage of considerable size, the employment of technical services such as automation, etc., etc.

Cooperatives can conquer these problems if there is a will and if there are educational policies which teach members the necessity of their full participation and cooperation to achieve cooperative success.

In recent years we have had much discussion in my country, on whether old cooperative principles such as the "one man one vote" form of representation should now be discarded.

So far, we have held on to this basic concept although we have modified its application to a considerable degree wherever this has been found desirable. We have not yet come to the conclusion that democracy is

something that has to be discarded. In fact we think it needs to be strengthened and made more meaningful. We still believe that the strength of cooperation depends upon the competence of directors and the support of those who are served. I won't say that all American cooperative leaders entirely agree with me, but so far as I am concerned, a cooperative ceases to be a cooperative if it adopts the habiliments of its competitors and takes as its goal and criterion of strength profits for the business more than service to those served.

So far I have been talking principally of cooperatives in the more developed areas of the world. In the past fifteen years at least we have in the United States extended our cooperative horizons. We now are deeply interested in helping people in the more under-developed parts of the world. This is not altruism alone on our part for we have come to realize that all peoples must prosper for any one people to prosper. I would like to say one final thing about cooperative principles. I believe cooperative principles must be pragmatic rather than dogmatic. The important thing is whether cooperative principles work to serve the needs of people. I don't think the time has come for us to give up our cooperative ideals. However, we must also realize that cooperative ideals will only be achieved through very practical means.

Recently, in our country we have done something to modernize our thinking with regard to cooperative principles. We have been endeavouring to prepare a criteria statement on What is a Cooperative for use by all parts of the United States Department of Agriculture. I notice that the Federation of Agricultural Cooperatives in Great Britain and Ireland has just agreed on a declaration of cooperative principles which should serve as a guiding light to all those concerned with the development of agricultural cooperation in the decade to come. I have read this declaration and I subscribe to it. I think it helps to clear the air so that we can get down to work.

With these remarks I hope I have opened up the subject for discussion, for without discussions cooperation will perish.

THE IMPORTANCE OF COOPERATIVES IN RURAL AMERICA TODAY[1/]

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

I am very happy to have this opportunity to meet with you. I have long been interested in forestry, since my Dad fought forest fires in the Colorado mountains around 1900, the year I was born, and I grew up with a high respect for the Forest Service. I have a summer cabin in the Colorado mountains, on my Dad's old homestead, located in the Roosevelt National Forest so I feel that personally I am somewhat in partnership with you--for without the trees the mountains would lose much of their beauty and the streams most of their fish.

I got well acquainted with forestry problems when I was a young professor at North Carolina State College some thirty years ago. This was when the Forestry School was developing there and many of my students in the course I gave in economics were foresters. I occasionally come across these men in various parts of the United States.

I don't see how anyone can not have great respect for the Forest Service. It has been a model of government operation ever since the days when Gifford Pinchot raised the conservation banner that has never dipped.

But I am straying from the topic assigned me which is The Importance of Cooperatives in Rural America Today.

I believe that if any of you visited the U.S.D.A. Patio Cooperative Exhibit in Washington, D. C., the first three weeks of October you would have obtained a good idea of how important cooperatives are in rural America today. This Exhibit showed how all of the major agencies of the U.S.D.A. perform work with cooperatives in carrying out their prescribed functions.

There are various ways of measuring the importance of cooperatives. One of these ways is through statistics--which are undeniable facts.

Let's look at a few of these facts.

1. Four out of five farmers are served at least to some extent by cooperatives.

2. There are over 9,000 farmer marketing and purchasing cooperatives serving farmers in all of our 50 States. They do a total volume of business of over 13 billion dollars annually.

1/ Notes for talk to be given at State and Private Forestry RAD-Utilization and Marketing Conference, Williamsburg, Virginia, November 16-18, 1964.

3. Many of these marketing and purchasing cooperatives are very significant organizations from the standpoint of their business volumes. Six were included in Fortune Magazine's 1964 list of 500 major industrial corporations.

4. These marketing and purchasing cooperatives have been growing significantly in recent years. In the 11-year period from 1950-51 to 1961-62 their volume of business grew by 64 percent.

5. The savings of these marketing and purchasing cooperatives for their farmer members amount to approximately 400 million dollars annually. They also help farmers in many ways through improved services that do not show up in fiscal facts. They also set a competitive standard that helps all farmers obtain supplies and services at lower cost.

Marketing and purchasing cooperatives also play an important role in American agriculture in many other respects. They help build a democratic spirit in American agriculture. They give farmers a direct voice in their industry. They build higher economic literacy in our farm population through giving them participation. They foster initiative and self-respect among our farmers. Incidentally, they help us preserve our American family farm structure which contributes so much to our American private and free enterprise system.

Marketing cooperatives also help farmers in other ways: Our system of national milk orders relies heavily on the presence of strong dairy cooperatives. They also provide a means through which government can effectively operate price support and other programs of direct value to farmers.

So far, I have referred primarily to our marketing and purchasing cooperatives. Many of these also provide essential services to farmers in connection with their marketing and purchasing activities--services such as grinding and mixing feed grain, spreading fertilizer, etc.

Of course you know of the importance of cooperatives in the field of rural electrification. The face of agriculture has been lighted by the rural electric cooperatives.

Cooperatives have also played a magnificent role in providing credit for American agriculture. There is no country in the world which has a finer system of cooperative rural credit agencies--and these are now largely farmer-owned and controlled. These organizations have helped farmers build all kinds of farmer cooperatives.

One area where cooperation has lagged more than I like to admit is in forestry cooperatives. For some twenty years I have watched abortive efforts in this field and to some extent I have given them encouragement.

I remember, for example, working with the Consumers Cooperative Association about twenty years ago when they acquired timber holdings in the Swisshome, Oregon area, to help supply their lumber yards in the Mid-West. The Forest Service helped the C.C.A. at that time. I also remember the experience of

the Indiana Farm Bureau at about this same time when they acquired timber holdings in Arkansas. These actions were not designed to help farmers develop forestry cooperatives. Rather, they were attempts by cooperatives to integrate their farm supply operations back to timber resources.

Naturally, I was very much interested in the Oswego New York State forestry project and I hoped that it could serve as a demonstration of what might be done cooperatively. However, this project was ahead of its time and it also had built-in weaknesses. It taught us several lessons which we are now beginning to take advantage of.

About seven years ago we in Farmer Cooperative Service began to work more closely with the Forest Service on cooperative performance. The problems of the pulpwood producers in West Virginia, Maryland and Pennsylvania attracted our attention. We thought that cooperative procedures might be helpful and we still think the same way. Now we are planning a comprehensive study of this problem and we hope to get some real working rules from it that can be applied generally.

A few years ago we had several conferences in my office with Forest Service people. At that time the Forest Service was focusing attention on the problems of farm woodlots. One of the problems was how could timber from the farm woodlots be better marketed.

I remember that there was some negative thinking in those conferences. The view was expressed that forestry cooperatives didn't seem to succeed in the United States. The question was raised--why? It was my view then, and it is now, that the subject has never had the attention it deserves. It is beginning to get such attention, as this meeting attests.

One of my friends over many years in the Forest Service has been Raymond Marsh, Assistant Chief, Emeritus. He has long had an interest in forestry cooperative possibilities and we occasionally have discussed how this field of service might be expanded and perhaps strengthened.

Dr. Marsh's opinions were reinforced following his study in 1951 of Scandinavian forest policy for the Charles Lathrop Pack Forestry Foundation.

His report, made following this study, is a valuable document and some of his observations are very pertinent today. For example, he said:

> "The situation in Sweden strengthens my conviction that there is a long need and opportunity for cooperative associations of small forest owners in the United States. . . The problem of efficiently marketing small quantities of timber, so vital to good forests on small properties, has not been solved in America." (p. 21)

In Norway Dr. Marsh was impressed with forest owner associations and he saw them as a promising avenue for development in the United States.

With the growing interest in forestry cooperatives in recent years we have had increasing opportunities to work with the Forest Service.

To determine factors contributing to success or failure we undertook a survey, in collaboration with the Forest Service, of existing and defunct forestry cooperatives. This material has been most useful in our work with forestry cooperatives.

Also, we have been impressed with the operation of the Au Sable Forest Products Association of East Tawes, Michigan. With the collaboration of Mr. Eliot Zimmerman of the Forest Service, we issued a popular report on this experience for educational uses. This report has been very well received and several thousand copies have been distributed.

Now we are working with the Forest Service in preparing a publication which will deal with forestry management and marketing. It will outline the steps involved and assistance available in organizing forestry management and marketing associations. This brochure should be of value to those who may be interested in the development of associations of woodland owners.

We are also initiating a study of a pioneering nature in the area of forestry economics and marketing. It is being made in response to an ARA request for Technical Assistance by Southern States Cooperatives, Richmond, Virginia, and Tri-State Pulpwood Cooperative Association, Inc., Westernport, Maryland. The ultimate objective of the study is to provide improved marketing conditions for farm woodlot owners and processors so as to strengthen the economy of the region. It will attempt to develop practical recommendations in sufficient depth to motivate interest in new or expanded forest-based enterprises and activities, based upon the availability of adequate wood supplies and of adequate markets.

The area included in the study will cover 11 counties in West Virginia, 2 counties in Pennsylvania, and 3 counties in Maryland. This study is being made by West Virginia University under contract with Farmer Cooperative Service. We have worked closely with other U.S.D.A. agencies, including the Forest Service and the Office of Rural Areas Development in developing plans for this work.

Merits of the cooperative approach in forestry.

A cooperative arrangement can be beneficial to woodland owners, to the timber resources, to buyers, and to various Government agencies.

To woodland owners:

1. Any margins inherent in providing forest management and marketing services accrue to those growing the timber. In the absence of a cooperative, they accrue to buyers.

2. Growers can obtain improved prices by marketing forest products of like grade, size, and species as one lot, rather than selling several lots on the basis of individual ownerships.

3. By purchasing supplies on a group basis, woodland owners can effectuate economies in obtaining insecticides, pesticides, equipment and other supplies required in their production and harvesting operations.

4. By pooling their finances, woodland owners and processors are in a better position to attract the managerial know-how required for an effective and efficient operation.

To preservation of our timber resources:

1. Consolidation of sales among farmers having mutual interests encourages the removal of all products and saleable species from an area in the same sales operation. Stands thus receive more complete silvicultural treatment.

2. Small tracts of merchantable timber scattered over a wide geographic area can be brought into operation. A good many of these small areas are not presently operable under large sales arrangements.

3. An association can help implement improved cultural and harvesting practices, and develop uniform sorting and grading procedures on an area-wide basis.

To purchasers of forest products:

1. By reducing duplication of services and facilities, an association can help processors realize savings in field work and in signing up contracts.

2. A cooperative, by consolidating timber from many woodland owners, can help processors and other buyers obtain a supply and flow of products required for an economical operation.

3. In attempting to arrive at an equitable price, both sellers and buyers become more aware of processing and marketing costs. As a result, prices should become more realistic and stable.

To Government Agencies:

1. Working with an organized group can help to avoid duplication of effort among Federal, State and local governments.

2. By dealing with woodland owners as a group, rather than on an individual basis, forestry workers can eliminate a large number of small sales.

Why forest co-ops are babes in woods in the United States:

Compared to the Scandinavian countries, development of forestry associations in the United States is in its infancy--perhaps 30 or more years behind. Incidentally, only a few weeks ago, when I was in England, I found much interest and some promising developments in forestry cooperation.

Three important facts are largely responsible for our relative lack of progress in the United States:

1. Forestry and forest products are of major importance in the economies of the Scandinavian nations. In Sweden, for example, the value of forest products exported varies from one-third to one-half the value of all exports. In contrast, the United States is one of the world's leading importers of such products. Norway and Finland are also exporters of forest products. Until recently, the economic value of forestry cooperatives in the United States has not been analyzed or emphasized.

2. National policy and philosophy in Scandinavia does not hesitate to use government power to promote cooperative effort to help solve problems the individual cannot handle alone.

3. No concerted program has been undertaken in the United States until recently to study the problems involved in setting up forestry cooperatives.1/ This is a field that requires much research and educational work. Forestry cooperatives require the same kinds of study and encouragement that have proved so valuable to other forms of cooperative organization.

All of us have learned a great deal about forestry cooperatives in recent years and I am glad to say that forest owners are beginning to put our findings into use. I anticipate that in the next 10 years we will have much progress to report.

Clyde Markeson, who is in charge of our forestry studies in Farmer Cooperative Service, recently reported at the U. S. Forest Service Interregional Forest Utilization and Marketing Workshop, (Madison, Wisconsin, September 22, 1964) on some of the things we have learned about organizing effective forestry cooperatives. I would like to commend his talk to your attention. He finished with the following three paragraphs which will also serve as a good closing for my remarks:

> "However, the time is ripe to reconsider the potential of forest-based associations. The emphasis on Rural Areas Development programs, the USDA's policy on cooperatives, and the Appalachian Regional Development Act now pending in Congress, are designed in part to help woodland owners help themselves.
>
> "The field is wide open for improved management of farm woodlands and greater efficiency in forestry operations. Timber marketing from smaller woods needs a lot of improving. And there is ample evidence that woodland owners can use cooperatives to help improve management and marketing conditions.
>
> "The stakes are high, but success is not automatically guaranteed. Your experience, knowledge, and assistance will be the vital force in accomplishing this mission."

1/ The report of Charles H. Stoddard, formerly with the Forest Service, The Small Private Forest in the United States, published by Resources for the Future, Inc., Washington, D. C., is a harbinger of things to come.

WILL YOU BE IN BUSINESS TOMORROW?*

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

Will you be in business tomorrow?

It seems to me that only you can answer this question. I'll try to give you some ideas to help you decide how to answer.

I have watched farmer cooperatives grow--decline and fall and rise again--for some forty years. It has been a period of tremendous change and cooperatives have done fully as well as other forms of business enterprise serving farmers. There have been adaptations, reorganizations, expansions and many failures. But the central cooperative root or trunk has continued to grow.

Some of the leading cooperatives of forty years ago, such as Sunkist, Dairymen's League, and Land O'Lakes are still leaders. Others have changed in name and form, such as the G.L.F. and Eastern States which have now merged to become Agway. There are many other organizations that have come into existence and grown great during this period such as the Southern States Cooperative, the Farmers Cooperative Exchange, the Cotton Producers Association, the CCA, the GTA, FS Services, Inc., and many others. In fact, few people ever take the time to look back and see what the cooperative picture was forty years ago. If they did they would realize how much progress has been made.

I have often pondered why some cooperatives have grown with the times while others have fallen by the wayside. As I see it, there are many factors that are responsible for cooperative success. An organization must be an all-round strong organization if it is going to grow and survive. I remember many years ago when I made a report to a board of directors of a large organization, I pointed out all the things that it needed to do to become strong, and it took me several hours to present my report. I dealt with organization, financial structure, membership relations, management and many other things. I remember after the presentation one of the directors came up to me and said, "You could put everything you had in your report into one sentence--get a good manager."

Sounds simple, doesn't it? But, in the first place, how are you going to get a good manager? Don't you have to know what a good manager is before you can get one? Are you willing to pay the price? And are you going to get a good manager to join your organization if he feels

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*Notes for talk at Sixty-Second Annual Convention of Farmers Grain Dealers Association of Illinois and Illinois Grain Corporation Manager-Director Institute, Peoria, Illinois, February 10, 1965.

that your organization doesn't know what a good manager is? There are too many cases where some one idea like this is presented as the end-all for cooperative success. Sure, it is important to get a good manager, but a good manager can't by himself provide everything you need--although over a period of time, with the cooperation of the directors and the membership that he reports to, a good manager may be able to effect changes that will be of tremendous value. Certainly, I will say that you can't operate a cooperative over a long period successfully without a good manager, or better, without a succession of good managers, because no manager can live forever. If you study the history of the great cooperatives that exist today you will see that they provided for managerial succession. One of the best illustrations of this that I know of is the GLF which has now become Agway. This organization has had a succession of great general managers from Ed Babcock to Ed Fallon.

This didn't just happen. It was planned that way.

We have heard a lot about the importance of developing bargaining power and there are many who feel--and I am one of them--that the key to gaining more bargaining power for farmers lies in the strengthening of their cooperative organizations. Now, if we are going to have organizations that have bargaining power in the field of marketing farm products and in the field of procurement of farm supplies, or in any other field, we must have organizations that are big enough to count. There are some people who are afraid of bigness. They are afraid of permitting their organization to expand or to grow or to merge so that it will become a larger and more powerful organization. I can understand why they feel that way. There is a natural temptation for all of us to want to keep things as they are. But we can't do that in a world which is on the move.

Recently Dr. Gordon Sprague, economist for the Land O'Lakes Creameries, said, "There is a strong case for bigness, generally, and an even stronger one for bigness in cooperatives." He went on to say, "This arises from the need (1) to budget moneys out of the current cash flow to invest in innovations, packages, products and the like; (2) to budget moneys from the current cash flow to provide for increasing advertising and marketing activity and the distribution of products; (3) to budget moneys from the current cash flow to provide for research in new products and equipment; (4) to provide capital for investment in growth and income, producing activities in marketing which will increase farm incomes and; (5) to protect farmers' future and present incomes."

In his talk Sprague indicated that bigness could be developed through cooperatives' working together. "In fact," he said, "there will need to be much more concerted action by cooperatives." I think that this is absolutely true.

But I want to point out that we can put too much emphasis on bigness. We can emphasize bigness and cooperation at the same time. Some of you may have seen my brief article in the February issue of the News for Farmer Cooperatives which I called "Not Size Alone." In that statement I made a couple of points which I think are very important. We can't let bigness become an obsession with us. We can't let bigness interfere with cooperativeness. We must build cooperatives that are big, but we must never forget that they are cooperatives and that individual members working together must control them. We may have a big government or a big nation, but the right of the individual in this country must be preserved. The same thing is true for our cooperatives. I think that some managers tend to forget just who they are working for and I don't think that they should ever be permitted to forget it.

Let's continue and talk a little more about bigness. One organization that I have watched grow from very small beginnings is the Cotton Producers Association of which Mr. D. W. Brooks is Manager. Here is an organization that has grown large and it is an organization where the members of the organization have grown large with the organization. The organization has benefited the members and the members, as they have grown in economic strength and understanding, have benefited the organization. Mr. Brooks recently gave a talk on Agriculture in 1965. He pointed out that the only way farmers could get the things they wanted was through building strong and sound business institutions large enough and efficient enough to have some real weight in the market. He went on to say, "We need to organize every commodity into economic units in this country so that the farmers themselves can have a sound bargaining position. Otherwise, we are going to see a continued erosion of prices and incomes in agriculture."

Now I believe that Mr. Brooks knows what he is talking about, because he knows what can be done for it has been done by an organization under his management. When I think of what has been accomplished by this cooperative under very difficult conditions it gives me confidence that farmers in any part of the United States can do the same thing if they follow the same general principles that have led to its success.

It may seem that I am going a long way off for my illustrations, but I could take organizations right here in the corn belt just as well. Take an organization that I have worked with for many years that was long known as the Illinois Farm Supply Company, now operated under the name, FS Services, since it now includes Iowa in its operating territory. FS Services has demonstrated what can be done by an organization with competent management and with competent direction.

In fact, the woods are full of illustrations of what can be done and how it is done if we will just look around. That is one reason why I have so much confidence in the future of agricultural cooperation in the United States. I am not one who feels that cooperation has reached

its peak for its peak is far ahead from the standpoint of the accomplishments that can be attained for the American farmer and, we might say, for the whole American economy.

A few weeks ago I heard Frank J. Smith, Extension Economist in Marketing of the University of Minnesota, report on a study made of the management of a number of cooperatives. Smith found that there was still a lack of basic management know-how on the part of many local managers. He said, "We haven't run into many who are interested in the processes of management such as delegation, control, job descriptions, policy definitions, and other devices by which managers cause work to be done." He went on to say, "We think that it is a fact of life that many managers presently on the scene became managers because they were capable of doing more physical work than anybody else in the organization." Smith believes that "a major job needs to be done to sell managers on the idea of being managers and, perhaps more importantly, to sell boards of directors on the idea that when the manager is at his desk he may be doing something more than loafing."

John E. Eidam, President of the Omaha Bank for Cooperatives, is of the opinion that in Iowa farms are going to double in size by 1974 and that Iowa cooperatives are going to be triple their size by 1974. But he thinks that there will need to be changes in cooperatives to get there, and he thinks one great need will be top-notch executives and managers. He says, "The greatest, most significant decision that you make is to hire capable management and, too, the greatest savings you make is to pay top salaries to good managers and key employees."

If you are going to be in business tomorrow, you are going to have to do some planning today. The better planning you do today, the better the chances that you will be in business tomorrow. Cooperatives on the whole do not do enough planning--although I am glad to say that they are doing more of it, quite a lot more of it. However, most are still far behind their competitors in this regard. Cooperatives ought to realize that today they are in competition with professionals. Amateur methods no longer are satisfactory. Planning is something that requires technical competence. It needs budgeting; it needs analytical capacity; it needs trained individuals. A great deal of planning can be done by the farmers themselves working with the proper employees of an organization because the planning should be done for the farmers and the directors should be responsible for it. But, never forget, planning does take a great deal of emphasis and hard work if it's to be well done.

The CCA of Kansas City, Missouri, is carrying on what they call Project 67. CCA leaders have an ambitious program to make 1967 a banner year. They are getting everybody in the organization into the act.

Homer Young, the general manager of the organization, explained Project 67 at the recent meetings of the National Council of Farmer Cooperatives at Seattle, and his talk would be well worth the attention of any of you. He made five points: (1) Cooperatives must have size; (2) cooperatives must have financial resources; (3) cooperatives must have trained manpower; (4) cooperatives must become basic in all of their major lines; and (5) cooperatives must have unity of purpose. I think all of you will buy those points. However, the significant thing is that here is an organization that is determined to put them into effect.

Burt Wood, Head of the Department of Agricultural Economics at Oregon State University, gave a good talk at this same meeting. He said, "Opportunities for cooperative growth have never been more promising and the challenge to excel has never been more compelling than it is today." In his talk, Wood referred to a recent article in Dun's Review on growth companies. He reported that a study of a number of companies which had enjoyed very favorable growth indicated that there was a common thread or series of rules that assisted them in excelling in sales and profits.

The various ingredients that resulted in growth were these: (1) Long-range planning at the grass roots level of management and the involvement of all employees in the job of looking into the future; (2) a truly dynamic corporate structure that enables the company to seize a profit opportunity whenever or wherever one appears; (3) an active, viable program to encourage employee innovation and creativity; (4) an infallible sense of timing, of being equally adept at knowing when to launch a new product or close down an old plant; (5) above average investment acumen, a particularly challenging capability that few corporations can really master and, (6) an integrated product line with a program of produce development and acquisition designed to avoid both risk and merely temporary gains.

I agree with Burt Wood that most of these ingredients are as essential for success in a cooperative as for any other form of business. Burt quoted a statement by Chairman Charles B. Thornton of Litton Industries that has a lot of meat in it. "If we create change we don't have to adjust to it but the other fellow does, and he has to follow it."

I remember talking with a manager of a big regional organization in the Mid-west about a year ago and I asked him, "What is your biggest problem?" It didn't take him long to reply that it was to find good local managers. It's not only a matter of finding them, it's also a matter of keeping them. Following our conversation, I made a little survey of the experience of a number of regionals and I found that there was quite general agreement on the importance of this particular problem.

Now, many cooperatives, especially regional cooperatives, are doing something about this problem by training programs and by developing inventories of their management resources so that they can make best use of their manpower. That I think is something that cooperatives cannot ignore as they look into the future. They must have the men. Churchill said, "Give us the tools and we will finish the job." I think we can paraphrase this and say, "Give us the men, and we will find the tools, and we will finish the job."

Another thing that I think the cooperative must be right on the ball on is keeping up to date on new technical methods such as electronic data processing. Many cooperatives are finding that data processing can be a great boon to them, that cooperative operations which involve a great deal of paper work can make excellent use of electronic data processing. However, it is very important that data processing and other technical matters of this kind be entered into with a great deal of care and study, and research.

In this connection I was greatly interested in an article by Ralph McGill, the columnist, in the Washington Evening Star of December 28, entitled "Computers Revolutionize Farms." He said, "The computer and the organization of cooperatives may well provide an economic blood transfusion that will restore the average farm to health. I think that McGill has hold of something very important here. Then he went on to say, "A co-op with a computer is in the agricultural near future." It is very significant when a syndicated article that goes to a large segment of the American public links computers and cooperatives.

Dan McVey, Chief of our Grain Branch, says, "To be in business tomorrow means that you have to be planning today both for where you want to be tomorrow, how you are going to get there, and what is currently being done toward reaching such objectives." He thinks that most of us plan or set our goals too small, and that we need to plan big. He says that here in Illinois, for example, many of the cooperative and commercial country elevators really do not have adequate receiving and handling facilities to take care of the farmers' needs at harvest. He ventures a guess that a lot of them aren't really equipped to do the job that they are set up to do. He thinks that many on-farm dryer and storage facilities have been installed because the local elevators did not meet the farmers' requirements. And he believes that good planning could have avoided some of this.

Dan also feels that there is not enough cooperation between cooperatives or, for that matter, between members of cooperatives, or of members of regionals and their own regional cooperatives. He thinks that if cooperatives are going to be in business tomorrow there will have to be closer ties between the members all the way up the line, the member with the local and the local with the regional.

I realize that there are some very encouraging things happening in the cooperative grain marketing picture in Illinois such as the merger last fall of Illinois Grain and United Grain which brought together a considerable potential volume. This is a step toward building a really effective grain marketing organization.

I also think it very important that regional cooperatives are beginning to find ways of working together. They have come to a realization of the fact that they can't go it alone or that it is not to their advantage to try to go it alone. They are beginning to really think big in a cooperative way. For example, I know that Illinois Grain and a number of other cooperatives are looking into port facilities for grain on the Gulf Coast. It has taken them too long to get to the place where they are willing to move forward in this way.

Communication will be one of the biggest problems in the next ten years--communication with members, with managers, with one another, and communication with the city population.

Some way must be found for people to understand each other, to break down misunderstandings. We can well use the term "communication" to cover this idea. It is easy for us to misunderstand people, or for people to misunderstand us. In the field of cooperation we have an even more difficult problem, because there are people who are trying to confuse other people with regard to cooperatives at all times. There are many people who are opposed to cooperatives and there are many cooperatives who do not take this sufficiently into account. They do not make their operations clear. They do not stress the simplicity of their operations so that people will understand them. I could give a whole talk on communication, but all I want to do here is to stress its importance. Communication is not something that is a simple idea. You have to work at it. Cooperatives have to issue their annual reports in a way that members can understand them.

Cooperatives should provide information through house organs and journals and letters and, in fact, in their speeches so that their members know at all times what their organization is doing. If people are going to stand behind you, they have to have faith and confidence in you. Confidence cannot be built up on the basis of secrecy of operation. Most big business organizations have found it imperative to provide a great deal of information to the public so that they will not be misunderstood. Cooperatives can do no less and should do much more because of the nature of the cooperative organization.

In the future we can't leave out the importance of transportation, especially in the movement of grain products. Transportation is coming into its own and cooperatives are beginning to understand how important it is. An investment in traffic management can be an investment in efficiency and in survival. Bob Byrnes, Chief of our Transportation

Branch, gave an excellent talk on the importance of transportation to cooperatives at the recent annual meeting of the Farmers Grain Dealers Association at Des Moines, Iowa. I recommend it to all of you.

Our studies in the Farmer Cooperative Service have shown that one of the main causes of cooperative failure has been poor administration of credit. I came to the conclusion many years ago after my studies of this problem that a cooperative that can control its credit is apt to be well-managed in other respects. So--if you want to survive--don't overlook your accounts receivable.

I am convinced that membership education is of equal importance to business success in the longrun survival of cooperatives. Those organizations that have built an informed and intelligent membership who know what a cooperative stands for and how it functions--they have, on the whole, been the ones that have succeeded. An excellent illustration is the Sunkist Growers, Inc., which is one of our oldest cooperatives, dating back to 1885. This organization has changed enormously over the 75 years that it has been evolving, and there are many lessons to be learned from its experience. It is a far different organization from the small organization it was at the beginning and there have been many amalgamations and changes, but the basic emphasis on membership understanding has continued. We can find the same continuity in the approach of Land O'Lakes Creameries. I could cite many other excellent examples.

I think that good organization structure is very important to the continuance of organizations. An organization must be so set up that it will perform a function. It should be set up so that it can provide for flexibility or change. You can't overlook good structure. An organization may need to join with other organizations to develop a stronger structure. We have to take into account the environment that an organization is operating in. If an organization is going to survive it must meet the conditions that are called for, the economic changes. It must be able to roll with them.

There is an old expression that I think has some point here. "If you can't beat them, join them."

I want to come back briefly to management. If an organization does not develop good management and provide for a continuation of good management and for a group of oncoming employees who can give leadership to the organization you can be pretty sure that organization is not going to survive.

Take the case of directors. Directors can make or break an organization. Let an organization get under the control of a group of habit-minded directors and you can be pretty sure that it is going to dry up the organization. Alert, keen, young executives are not going to be

interested in working for such directors. There is one reason why it is a good idea to have some young directors on a board of directors--young people can think further ahead because they have a longer period of experience to look forward to. Directors in their sixties or seventies can't help but think in terms of preserving what they have themselves accomplished. They don't think in terms of living with an institution for the next ten or twenty years. They are apt to think in a backward rather than in a forward way. Now it is a good thing to have some seasoned directors but it is a bad thing if there are not some young directors coming along. There is a happy medium on this and organizations have to find it if they are going to survive.

I think there are many cooperatives that keep going or try to keep going too long. It would be wise for them to say frankly, "It would be to our advantage to join forces with another cooperative, even if it means giving up our identity." That is strong medicine and it is hard for an organization to accept it but I think there are times when this is the only solution. If organizations try to continue when the cards are stacked against them they will lose the very idea that they are trying to preserve.

The point that I am trying to make is that when we think of what cooperatives must do today to be in business tomorrow, we should be sure that we are not talking about the preservation of some one organization as if it were sacrosanct. The preservation of your objectives is the important thing. This is the idea that is significant. The preservation of your objectives is much more important than the survival of your own institution.

What are farmers interested in getting from a cooperative anyway? I think the answer is better services and at the lowest possible cost. I think that is what you are really interested in achieving. If your organization must go out of existence or join with another organization to provide better services at lowest cost I think that is something you have to accept.

We are in a period now of great change and I anticipate that there are going to be many differences in the cooperatives of ten years from now as compared with the ones we have today. However, I see no reason why cooperatives can't make the needed changes in the next ten years as they have in the past. The times are such that the opportunity for alert, well-managed cooperatives is better than it has ever been.

Secretary George L. Mehren said this well in a talk to the Nebraska Cooperative Council in Lincoln, Nebraska, on February 8:

> "Some people seem to think that the days of economic cooperation are numbered--that the cooperative idea having served its purpose will soon be relegated to the limbo of obsolescence.

"There never was a time when the cooperative idea was so healthy, so fruitful, so vital to progress as right now--and not only in the emerging nations of the world but here in the U.S.A.

"The era we are now entering may well be called by future historians The Cooperative Age. That's the way we feel about it in the USDA."

So let's sum up. Will you be in business tomorrow? The answer will depend on you. The strong will survive and the weak will perish.

Much will depend upon your will to survive. If you have the will, you will find ways to meet the problems ahead of you.

In this talk I have stressed:

1. The need to plan and manage.

2. The importance of being flexible in adapting to new situations.

3. The value of selling your program so that you take others along with you.

4. The necessity of working with and through others. You--or your cooperative--can't do it all alone.

So I end my reply to the question "Will you be in business tomorrow?" with the old refrain:

"It all depends on you!"--and I mean by you--members, directors, and managers.

WOMEN AND COOPERATIVES

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U.S. Department of Agriculture

These two papers, (1) Education for Cooperation and (2) Production, Purchasing, and Marketing, were presented at the Eleventh Triennial Conference of the Associated Country Women of the World, held in Dublin, Ireland, September 14-24, 1965. The conference theme was "Working Together."

The conference was attended by 1,304 women representatives of member organizations from all parts of the world. Of these nearly 300 came from member organizations in the United States.

EDUCATION FOR COOPERATIVES

I am greatly honored to have this opportunity to address your great and influential organization. It always gives me happiness to work with women, and the happiness is compounded to be in Ireland, the mother country of many of our rich conceptions of what agricultural cooperation can achieve and especially the idea that the end to be sought from cooperation is better rural living.

It seems to me that my assigned subject, "Education for Cooperation," could just as well be stated as "Cooperation for Education," for there can be no education without cooperation between teacher and pupil, and cooperative forms of organization are in themselves instruments of education.

Until I was invited to give this talk I did not appreciate the importance and significance of the Associated Countrywomen of the World. I didn't realize that the A.C.W.W. was comprised of nearly 200 member societies in some 50 countries, with a total membership of over seven million country women. I didn't know of your "pennies for friendship" scheme that has enabled A.C.W.W. to become an important force in people to people cooperation.

One of the great problems of our world today is to create better understanding and better communications among people--both within and outside of our own countries. We are too much inclined to live and think in terms of our own countries or neighborhoods. We don't know, or sufficiently care, how others live and think. However, this meeting is evidence that many are coming to realize that all of the world is a neighborhood and that the world's future depends upon the rapidity with which we can weave ties of friendship among the peoples of all nations.

I am of the opinion that one of the most promising developments of recent years has been the rise of women into positions of prominence within their countries and in international organizations. In my own country Mrs. Eleanor Roosevelt demonstrated how much a woman could do to improve her world. What women could do if given more opportunity was recognized by President John F. Kennedy when he established a National Commission on the Status of Women. President Lyndon B. Johnson has followed up by leading a vigorous campaign to bring highly qualified women into more positions of national importance. At the present time Mrs. Esther Peterson is Special Assistant to the President for Consumer Affairs and Assistant Secretary of Labor. She is continually on the alert to see that consumers' interests are protected. In my own Department I am proud to say that Mrs. Dorothy H. Jacobson is now Assistant Secretary of Agriculture for International Affairs. She is, by the way, exceptionally well informed and deeply interested in all types of cooperative organization. These are representative of many other women who are contributing to the attainment of President Johnson's conception of a Great Society.

I have examined with great interest the historical roots of the Associated Countrywomen of the World. Like all great organizations, it represents a confluence of many social, economic and political forces. While Canadian women can be proud that the foundation stone was laid by the work of Mrs. Alfred Watt, great seminal forces were at work in many countries during the latter half of the nineteenth century. They gradually came into fruition through the formation of rural women's organizations in various countries which have fused to make this tremendous agency for international rural improvement.

The nineteenth century was a time of ferment in many parts of the world, and this gave women an opportunity to break away from old customs and gain a greater measure of recognition as equal partners with men. During much of this period the Sovereign of the worldwide British Dominions was a woman--Queen Victoria. Women could not be overlooked with Queen Victoria on her throne.

Other women who brought great respect to their sex during the nineteenth century included such great English novelists as Jane Austen, the Bronte sisters, and George Eliot, and, in the United States, Harriet Beecher Stowe, the author of the book which did so much to arouse sympathy for the Negro slaves--Uncle Tom's Cabin. Florence Nightingale revolutionized hospital administration and served as "a source of inspiration and practical help to all who were working for social causes in every part of the world." By showing "what a woman could do in practical statesmanship.../she/ helped forward the cause of women's freedom everywhere." (Encyclopaedia of the Social Sciences). Moreover, it is very significant that one of the leading thinkers in the worldwide spread of the cooperative movement was Beatrice Potter (later, Mrs. Beatrice Webb). Her book, The Cooperative Movement in Great Britain, published in 1891, was soon translated into a dozen languages. It was the first book to provide a theoretical foundation for the practice of consumers' cooperation.

Of particular interest to us is the fact that the Women's Cooperative Guild was formed as an adjunct of the British Consumers' Cooperative Movement in 1883 under the name, "The Women's League for the Spread of Co-operation." It was formed (1) "to spread a knowledge of the advantages of co-operation," (2) "to stimulate...a greater interest in the principles of co-operation," (3) "to keep alive in ourselves, our neighbors, and especially in the rising generation, a more earnest appreciation of the nature of co-operation to ourselves, to our children, and to the nation and, (4) to improve the conditions of women all over the country."

The Women's Guild movement grew rapidly and by 1893 there were 6,000 members and 137 branches. From its beginning, education broadly defined was one of the principal activities of the Guild movement. A very remarkable woman--Mrs. Margaret Llewelyn Davies--was General Secretary of the Guild from 1889 to 1921. According to Leonard Woolf, Virginia Woolf's husband, Mrs. Davies was "a Joan of Arc to her cohorts." How much influence the Women's Guild had on the rise of the Women's Institutes in

Canada in the late nineties, I do not know, but it probably provided something of a pattern that could be adapted to rural conditions. The Guild no doubt influenced Sir Horace Plunkett who studied the consumers' cooperative movement in England during the 1880's for ideas that could be transplanted into rural Ireland.

Now that I have mentioned Plunkett, I wish to stress his significance in the context of the subject assigned me. If any one name stands first as an "educator for cooperators" it is, in my opinion, that of Sir Horace Plunkett. And Plunkett did not overlook the importance of women in "education for cooperation."

The Contribution of Sir Horace Plunkett

It is not possible here to explain fully why the name of Horace Plunkett is so important to our subject today. But the essential facts are these: After spending several years cattle-ranching in Wyoming, U.S.A., Plunkett returned to Ireland in 1887. He was then thirty-four, and anxious to be of service to his country. He became deeply interested in the problems of Irish farmers, who were extremely poor and leaderless. He began to see the possibilities of cooperation as a means of self-help, and the idea grew upon him. He started to form cooperative societies and he turned to his friends for help. His earnestness persuaded men like Lord Monteagle, R. A. Anderson, and Father Thomas Finlay, S.J., to join with him, and the number of such loyal associates gradually grew.

Plunkett first tried to set up consumer stores but he soon saw that cooperative creameries had more promise, so he turned to this more distinctive type of farmer cooperation. It was slow and discouraging work, for the difficulties were almost insuperable--but eventually the dream began to take on substance. Plunkett had inexhaustible patience, and failures did not daunt him. He knew that his program was right for Ireland and his confidence in its importance and ultimate success carried his little band of colleagues with him.

To achieve his ultimate end--nothing less than the reorganization of rural life in Ireland by means of cooperative associations--Plunkett needed a national organization. He conceived the idea of the Irish Agricultural Organization Society--which soon became known as the I.A.O.S.--and this organization was formed in May 1894, with these objectives:

> "To improve the condition of the agricultural population of Ireland by teaching the principles and methods of cooperation as applicable to farming and the allied industries, to promote industrial organization for any purposes which may appear to be beneficial, and generally to counsel and advise those engaged in agricultural pursuits."

It will be seen that this organization was largely devised as an educational organization which would provide technical assistance in the formation of agricultural cooperatives.

Plunkett's vision went further. He recognized that cooperative organizations could provide a "better business" organization for farmers--but he also recognized that Irish farmers needed assistance from the Government to obtain "better farming" methods. With the I.A.O.S. launched he turned his attention to this problem and, in a letter to all Irish newspapers, he submitted "a proposal affecting the general welfare of Ireland." He recommended that the party political leaders should each nominate a few members of Parliament to form the nucleus of a committee which was to include Irishmen representative of the agricultural, commercial, industrial, and professional interests of Ireland, North and South. The purpose was to promote legislation on which all parties could substantially agree. Plunkett's proposal met with an immediate response and, although there was serious opposition, the proposed committee took shape under Plunkett, as Chairman.

The report of this committee called for measures to improve technical education for Irish farmers and it led to the establishment of the Department of Agriculture and Technical Instruction in 1899, with Plunkett in charge. Great difficulties beset Plunkett in getting this new Department established but, together with the I.A.O.S., it inaugurated a rural renaissance that attracted attention in many parts of the world. It was through Plunkett's influence that President Theodore Roosevelt set up the American Country Life Commission in 1908, and this Commission transplanted many of Plunkett's ideas to the United States.

Plunkett's formula for rural improvement, the "Three Betters"--Better Farming, Better Business, Better Living--became known worldwide. He saw the key of the arch as Better Business and to him this could best come through agricultural cooperation in all of its forms: Marketing, purchasing, production, and credit. Better Business through cooperation would encourage Better Farming, but here Plunkett saw that Government could best render the necessary assistance through research and technical instruction. Plunkett realized that Better Business and Better Farming would produce as an end product Better Living--but he was concerned with more than better living in a material sense. He envisaged the creation of a rural civilization which would make rural life pleasant and rewarding.

In his book, The Rural Life Problem in the United States (1910), Plunkett gave special attention to the position of women in rural life, for he recognized that women had a direct concern with all three parts of his program for "better farming, better business, better living." He held, however, that the greatest opportunity for women lay in what they could do to bring about better living for he understood that "the woman makes the home life of the Nation." He saw in cooperatives a mechanism through which women could make their "social usefulness" felt.

In 1897 Plunkett had found the man to develop his concept of Better Living in the great Irish poet, "AE" (George Russell). AE was not only a dreamer and a mystic. He was also intensely practical and the most gifted writer who has ever espoused agricultural cooperation. As a controversialist in the battles for recognition of the cooperative idea while editor of the Irish Homestead he has had no peer.

AE was attracted to the cooperative idea because of what it could do to strengthen the rural community. He saw clearly that rural women could not be left out of any program designed for the improvement of conditions in the rural home. AE once said, "The business of women is really to civilize men." Women have been working on this task for centuries but only within the past few decades have they come to realize that this is essential for their own survival.

Out of the writings of AE and the encouragement of Plunkett, the United Irishwomen (now the Irish Countrywomen's Association) was born in 1910. This organization was frankly designed to further the better living concept of Horace Plunkett and it was organized as a sister organization of the I.A.O.S. The story of its formation is told in a little book, The United Irishwomen, issued by the I.A.O.S. in 1910. In its introduction, Father Finlay said: "Money results, important though they are, were not the ultimate aim of the founders of the Irish Co-operative Movement. Their purpose was to establish on an improved economic basis a higher and more satisfying home life in rural Ireland." In this book Sir Horace Plunkett saw the United Irishwomen "drawing /women/ out of their isolation, teaching them to teach others, and forming them in an ordered league of workers that shall penetrate every corner of our country and leave it a better and happier place than they found it."

No one was more pleased by the growth of women's organizations throughout the world to improve rural conditions than Sir Horace Plunkett. It gave him great satisfaction that the Conference on Agricultural Cooperation in the British Empire, held in England in 1924, devoted its last day to a consideration of "rural community organization for better living." The keynote address at this session of the conference was given by Miss Grace Hadow, then Vice-Chairman of the National Federation of Women's Institutes in England, and she gave credit to Canada for the rise of the women's institute movement in England which is this year celebrating its Golden Jubilee. Miss Hadow proposed two resolutions which were unanimously adopted by the conference which should, in view of their current significance, be restated and re-emphasized today. I am sure, however, that if she were to rephrase her resolution in the light of world developments during the past forty years she would replace the word "Empire" by "world," and so I am doing so:

> "1. That agricultural cooperators throughout the /world/ be reminded of the necessity for interesting in their movement the rural organizations of women.
>
> "2. That all rural organizations of women be urged to interest themselves in the applications of cooperative methods to agriculture, not only for economic reasons, but because experience has shown the system to be the best means of promoting social advancement in the rural community."

These resolutions--to my mind--are still appropriate today. Many cooperatives need to be reminded that women have a place--a unique place--in the progress of agricultural cooperation. And many women who are concerned with rural improvement need to know more about agricultural cooperation as a means through which they can be helpful.

Before going on, I would like to say that I think it is highly significant that the person who has done the most to carry forward the aspirations of Plunkett is a woman--Miss Margaret Digby, who has long served as Secretary of the Foundation founded by Plunkett to continue his life's work. Her biography of Plunkett is a lasting monument to his career.

The Contribution of Seaman A. Knapp

While Sir Horace Plunkett was forging the Irish cooperative movement as an instrument for rural improvement, Seaman A. Knapp--the founder of the Extension Service in the United States--was conducting an equally important experiment. The ideals of the two men were not opposed--they simply took two different routes to achieve the same end.

Seaman A. Knapp was a born educator who realized that success in any endeavor calls for cooperation. His first experience in education was teaching in a college for young women. The objective of the college was "to develop the pupils into an intelligent, refined, heroic womanhood." Many years later he became President of Iowa State Agricultural College which has become one of our major universities. In this post he was one of the promoters of the Hatch Act of 1887 which set up our system of State agricultural experiment stations. Knapp realized that teaching calls for the development of new knowledge by means of research.

In a speech on education in 1885 Knapp held that it was vital to the Nation that young women receive a college education that would fit them "to become the companions and co-laborers of men in the industrial life of the country.../for/ the woman who shares /a man's/ struggle for subsistence should understand household arts and economics." He pointed out that "Political economists...have not recognized that in life's struggle the spoon is greater than the shovel; that more is expended for bonnets than for barns; that more capital is deposited in stomachs than in national banks."

The great contribution of Seaman A. Knapp came when he was nearly seventy years of age. At that time he perfected the cooperative farm demonstration system approach to meet the onslaught of the cotton boll-weevil. This led to the employment of "county agents" and the development of the Cooperative Extension Service which stressed the importance of demonstration as an educational device. Knapp's philosophy was expressed in this aphorism: "What a man hears he may doubt, what he sees he may possibly doubt, but what he does himself he cannot doubt." We can think of cooperative organizations also as demonstrations, in which people find that they can meet many of their problems by working together.

Although the County Agent program started with men, Knapp soon saw how it could be broadened to embrace the whole farm family. Boys' corn clubs, calf clubs, pig clubs, and potato clubs grew to become the 4-H Clubs, which now cover rural areas throughout the United States.

It is highly significant that 4-H or similar clubs are now found all over the world.

His biographer, Joseph C. Bailey, calls the inauguration of home demonstration work the "capstone of Knapp's edifice." After 1910, women Home Demonstration Agents worked with women on their problems of particular interest for the benefit of the whole rural community and here the better living concept of Plunkett was given full play. Knapp recognized that "the great force that readjusts the world originates in the home," and that women largely control the standard of living on the farm.

I am proud to say that while a professor at the University of North Carolina from 1929 to 1934 I was privileged to work intimately with one of the great pioneers of Home Demonstration work, Mrs. Jane Simpson McKimmon. Those of us in agricultural work in North Carolina paid Mrs. McKimmon tribute by referring to her as "Our First Lady." She was very much interested in the improvement of the home demonstration women's markets, and I became her technical adviser on the operation of these markets. The spirit of Mrs. McKimmon is captured in her autobiography, When We're Green We Grow. When I first met her she said to me, "Dr. Knapp, I want to tell you something about our people in North Carolina. We are conservative. We are like a flat iron. It takes a long time to heat us up but when we get heated for a worthy cause we stay hot." I found that she was right. In her book Mrs. McKimmon has a chapter on the Associated Countrywomen of the World in which she tells with glee how North Carolina sent 680 of its organized farm women to your triennial meeting held in Washington, D. C., in 1936.

The work of Horace Plunkett and Seaman A. Knapp was complementary. Each broadened the dimensions of the other. The seed that they planted has flourished vigorously. And yet, who can say that we have reached their full aspirations?

Education and Cooperation Go Together

As I see it, education and cooperation are like Siamese twins. They cannot be separated. Cooperative organizations are dependent for their success on well-informed members. Without continuous education of members, cooperatives dry up and lose their vitality. In our work with cooperatives in the United States we recognize that education of members is essential for business success--for well-informed members will select competent directors who will, in turn, insure that managers and necessary employees will capably look after their business interests.

But education for cooperation calls for something more than education in cooperative procedures. There must be continuous education on the meaning of cooperation itself. Cooperation calls for involvement of the individual. To make it succeed there must be people who under-

stand its principles, who are convinced of its necessity, and who will commit themselves to its success. Cooperation is a practical philosophy --but its highest appeal is not materialistic. Its methods are economic --but economic gain is not its final goal. Cooperative aims must envisage a better world--and the great strength of cooperative organizations throughout the world today comes from the fact that they are striving to help create a better world.

To my mind, those who wish to improve the living conditions of rural people through education cannot ignore the cooperative form of organization as a means to that end. As W. P. Watkins, formerly Director of the International Cooperative Alliance, once said, "Cooperation is an educational movement which makes use of economic action."

UNESCO in 1950 published a very fine report on Cooperatives and Fundamental Education, by Maurice Colombain. This report showed how education for cooperation was being carried on in many countries. Mr. Colombain held that rural cooperative societies constituted the most convenient system for conveying quickly expert counsel and advice to agricultural population. To him cooperative societies were "practically vocational schools."

This point was made clear by Lady Jackson, better known as Barbara Ward--the renowned authority on worldwide social and economic problems--when she addressed the 24th Biennial Conference of the Cooperative League in Chicago last November on "Cooperatives--A Worldwide Need." She termed cooperatives one of the key answers to the development problem in the modern world. She said: "Wherever you can get a cooperative breakthrough, I believe profoundly, you will get far more modernization than by any other route, and far more rapid modernization pointing towards the kinds of society in which people actually will want to live." She went on to say: "We're not just interested in the creation of wealth, although heaven knows we're desperately interested in that as well, because without wealth there is no opportunity. We are also profoundly interested in the quality of the societies that are built. In this context, the cooperative principle is of absolutely crucial importance." This statement by Barbara Ward is in the great tradition that "not for bread alone" should we aspire.

Although cooperatives are worldwide in scope and importance there are still many people who do not understand what they are or how they are formed and operated. There is a great need for education to help people know the principles embedded in cooperative business enterprises. Many have heard of the Rochdale Principles but know little of how these principles have been modified and modernized to meet varying conditions.

If we are to educate to achieve better cooperation we must know what we are educating for. It is essential that people know what cooperatives are if they are to teach others how to form and use such organizations.

Basically, cooperatives are business organizations formed by people to serve themselves. Plunkett called them "self-help organizations." Their distinguishing characteristic is that they are not organized to make a profit from others. Any savings from performance of their own business functions are returned to members in proportion to their use of the services provided. Such cooperative organizations are found in practically every country of the world.

I believe firmly that women should be as well informed as men on how cooperatives function, for farming, more than any other occupation, is a man-woman partnership. Some of our cooperatives in the United States are coming to realize this fact--although I must admit that many cooperative leaders do not yet admit this in public. In a talk at the American Institute of Cooperation in 1937 on "The Farm Woman's Place in the Cooperative Movement," Miss Vera McCrea, then Director of the Home Department of the Dairymen's League Cooperative Association, one of our major cooperative enterprises, said:

> "To me, the importance of the farm woman to agricultural cooperation seems no less than axiomatic...It is virtually impossible to run a farm, or the business of farming, without the cooperation and participation of the women or woman of the family...We must build up the belief and confidence of men in the work which is to be done by women. For true cooperation is all-embracing...It means working together for the common good, and this men and women can do if they will. I recommend this type of cooperation as an ideal--I will even go so far as to say the essential--of any cooperative organization."

Miss McCrea wrote a creed for the Dairymen's League's Home Department which is still the keynote of its work. You may find it of interest:

> "To maintain the highest ideals for the Dairymen's League Cooperative Association; to develop a love for and a loyalty to the organization, and thus assure a permanent and stable foundation; to think actively and intelligently about the League; to work for the highest type of leadership and for the highest quality products; and constantly to broaden and to extend the League's influence and its membership."

Miss McCrea was a great cooperative pioneer and her work with the Dairymen's League gained recognition for women in other cooperative organizations. After hearing Miss McCrea speak at an American Institute meeting in 1942, the officials of the Southern States Cooperative decided to give recognition to women. This large regional purchasing and marketing association which serves Virginia, Maryland, West Virginia and Kentucky; now has a very strong Woman's Department--known as the Farm Home Service--under the direction of Miss Mattie Kessler.

In a recent letter to me, Miss Kessler said, "Basically, my department attempts to educate," and by this she means improving the understanding of women on how cooperatives operate and how women can participate in making them of greatest use to the farm family. She says that "The good will which has developed through this program from members as well as local cooperative employees cannot be measured."

The Farmer Cooperative Service of the United States Department of Agriculture has long encouraged cooperatives to recognize and enlist the support of women. In 1956 we issued a report entitled "How Women Help Their Farmer Cooperatives" which describes the women's programs of several cooperatives. It shows how women can help cooperatives by planning for farm and family needs and by programs for improving membership and public relations.

Within the past month we have issued a circular under the title, "Directors and Wives--a Good Member Relations Team." This circular has been developed largely from talks presented by women cooperative leaders at a series of membership relations conferences held throughout the United States. Some of the headings in this circular will indicate what is covered: (1) The cooperative provides information; (2) Facts are needed and how to present them; (3) The member relations team works at home; (4) Cooperative business; (5) Family education; (6) Women auxiliaries; (7) Membership meetings; (8) Study groups; (9) Tours; (10) Youth activities; (11) Better housekeeping for cooperatives. As these publications are filled with ideas of interest to this conference I have brought a supply for your use in the panel discussions.

In this talk I have stressed three things:

First, I have noted how your great organization has evolved in response to a worldwide need for education and cooperation among farm women.

Second, I have maintained that education and cooperation cannot be dealt with in separate compartments. One cannot educate for rural improvement without cooperation in all senses of the word, and one cannot build cooperatives without educating people so that they will know how to make proper use of them.

Third, I have observed how women have been steadily gaining recognition for the contributions they can make to cooperative progress.

While women can help in achieving all of the goals for rural improvement set forth by Sir Horace Plunkett--better farming, better business, and better living--I believe that their greatest contribution can be in helping us keep the emphasis on what I think Plunkett considered the most important of the three--better living.

In this talk I have not dealt with cooperation in a technical sense, for I understand that we will give attention to cooperative educational methods in the discussion sessions. Moreover, I am assuming that the talks by Monsignor Smyth and Mrs. Bergstrom will provide information on educational procedures being used in other countries to promote cooperative development.

One of my younger colleagues in the Farmer Cooperative Service recently called my attention to a verse that he liked by AE and, interestingly enough, he wasn't aware that the author was a famous cooperator. The power of AE's words transcended his reputation. May I share this verse with you:

> "It is a dull business,
> Unworthy of being made in the
> image of God
> To grind away at work
> Without some noble end to be
> served,
> Some glowing ideal to be
> attained."

Thank you.

We meet again to explore how rural women can further better living through working together. Yesterday I discussed the importance of education for cooperation. Today I will examine the contributions that you can make to rural prosperity through helping to build sound cooperative programs for production, purchasing, and marketing.

Many years ago George Bernard Shaw wrote an important book that he called "An Intelligent Woman's Guide to Socialism and Capitalism." He assumed that intelligent women in a capitalistic age would want to know something about capitalism and the challenge to socialism. Perhaps someone should now write a book that might be called "An Intelligent Woman's Guide to Cooperation," for cooperation as a form of business enterprise is steadily gaining adherents throughout the world. In this talk I will present a few ideas that may help you determine how far you may wish to go into this subject. It is my general conviction that cooperatives merit more attention than women have so far given them.

We all know that cooperation in its broadest sense means reasoning and acting together to achieve goals. The idea of cooperation has in it the idea of participation. We work together, we play together, we use things together, we benefit together. One of our oldest instincts is to cooperate--Prince Kropotkin even maintained that mutual aid was a dominant animal trait. But as our world becomes more complex, can we rely on natural instincts to cause us to work together automatically? We may draw together in necessity, or in an emergency, but that is not enough. We have found it necessary to develop institutions of numerous kinds to facilitate cooperation. Governments, trade unions, trade associations, farm organizations, and churches are all examples of agencies through which people work together and discipline their activities together. Families, tribes, nations, and the United Nations are all forms of cooperation.

What is Cooperation?

Cooperation implies mutual action to achieve common objectives. We speak of international cooperation. For what purpose? The answer is, to achieve and maintain peace and thus avoid war. Cooperation is a great civilizing force.

Cooperation is not without its rules. The Ten Commandments gave us laws to help us guide ourselves in accordance with moral principles. They have helped mankind take steps toward human dignity. Cooperation, to enable people to carry on business affairs together in an efficient manner, must have, likewise, its rules--and those interested in cooperative organizations of all kinds have unceasingly attempted to improve the rules for working together so that there will be a better understanding of how cooperation can be most effectively carried on.

We call organizations that are set up for the purpose of conducting business affairs together cooperative businesses, and as far back as 1844 the Rochdale pioneers helped us develop rules for cooperative businesses. These rules, modified to meet modern needs, are still useful today.

Up to this point I have been talking about cooperation in its broadest sense. I have tried to indicate that in every phase of human life people can cooperate to achieve goals beyond the reach of individuals acting alone. These general comments will, I hope, provide a background for the rest of my talk which will deal more directly with rural cooperatives and the role of women in helping them achieve success.

I am sure that all of you will agree that the prosperity of the farm home depends upon the efficient production of crops and livestock, the efficient purchasing of supplies, commodities, and services needed on the farm and in the farm home, and the efficient marketing (including assembly, processing, transportation, etc.) of the crops and livestock produced on the farm.

Farmers in all parts of the world have found that they can use cooperative business organizations to advantage in performing these necessary production, purchasing, marketing, and other related business functions. These functions are generally interrelated. Efficient production must be guided by the needs of the market, for crops, livestock, and livestock products must be produced to meet the requirements of consumers. Moreover, efficient production demands that supplies of seed, fertilizer, feed, petrol, and farm machinery be purchased efficiently so as to obtain supplies of good quality at lowest possible cost.

The individual farmer or farm family generally is too small as an economic unit to produce, buy, and sell to advantage independently. By joining together with other farmers or farm families in a cooperative business organization, the combined group can obtain the economies and the fruits of large-scale operation.

Many years ago AE (George Russell) made this point clear in his "Talks With an Irish Farmer," (Irish Homestead, 1916). In these talks AE spoke intimately to all Irish farmers--and thus to farmers throughout the world--on the problems of their industry and on the way farmers through self-help cooperation could meet them. Although agriculture has gone through a world revolution since these talks were given, there is no better source for study of the basic truths involved in the philosophy of agricultural cooperation. AE said:

> "Cooperation means working together. It is a joining of energy to do something which cannot be done so well or at all by people working separately....When cooperation is applied scientifically to the business of a farmer it helps him in three directions.

"First, if he and his neighbors buy together the raw materials of their industry, their seeds, fertilizers, feeding stuffs and implements, they can get them at wholesale prices and be sure they are of good quality. Farmers are entitled as manufacturers to buy at wholesale...

"Secondly, it helps him produce better, because a society of farmers can easily buy machinery too expensive for an individual farmer to hold but which the group can use together with great profit...

"Thirdly, cooperation will enable farmers to market better, to get directly to the consumer, the wholesaler or the final retailer in the towns..."

AE looked beyond the material benefits that cooperation could bring --for he saw values in the very act of cooperating of even greater significance. He went on to say: "The cooperative farmer, once he joins a society, makes a great stride to becoming a real citizen of his country...All work for each other instead of working alone, and often against each other...The way to get rid of bad habits is to form good ones, and it is a good habit to work with other men for objects approved of and well understood."

The cooperative business organization has been found well adapted to the needs of agriculture since this industry is comprised of many individual farm business units consisting largely of the farmer and his family. This is the general pattern of farming in most countries today.

We can look upon farms themselves as small informal cooperative businesses. Mrs. Charles W. Sewell, who was long the Administrative Director of the Associated Women of the American Farm Bureau Federation--and for some years your President--once maintained that the farm home was America's original cooperative. Let me quote from what she said, "The farm home is a small democracy and possesses many of the qualities of a first-class cooperative. Each member of the farm contributes his or her share of effort and each will share respectively in the profits thereof. There is only one vote to a member and that is usually cast by the father, although mother has likely influenced his thinking so as to get a vote in his, herself." (American Cooperation, 1946) Without question, a happy farm home is built on the principles of give and take that are essential to true cooperation.

Farming Is a Family Business

Before going further, I think it is important here that we recognize that farming is uniquely a family business and that women are deeply involved in its success. If the farm business prospers women are able to obtain the things that they hold dear. Education for their children, perhaps a more modern kitchen, or an automobile--not to speak of a new dress or hat. Farm women work along with men to make the farm a success.

They may keep the garden, raise the chickens, care for the livestock, or work in the fields. Many wives maintain the business records for the farm--and I am informed by a friend who handles farm loans that most farmers will not dare to make a serious business decision unless it is approved by their wives.

The cooperative business organization is distinguished by the fact that it is designed to serve an end rather than be an end in itself. Its success is measured by its ability to serve the needs of its members, by performing needed services, and by making savings for them, so as to enable them to increase their incomes from farming.

In a cooperative association the savings are returned to the members in proportion to the use they make of the association. Thus, cooperatives in themselves are non-profit organizations, for everything over costs reverts back to the members in savings. Profits are not kept by the cooperative for distribution to those who supply the capital.

While I do not wish to be too technical, it is important that we do not over-simplify the cooperative method of operation. In outward appearance cooperatives may seem quite similar to other business firms. The main difference is that they serve people as members while other business firms serve them as customers.

There are three major distinguishing characteristics of a cooperative organization as compared to a general, or non-cooperative business:

1. Members of a cooperative seek to obtain services for themselves at cost--their object is not to obtain profit from providing services for others.

2. A cooperative distributes amounts remaining after payment of the costs of doing business among those who are served by the cooperative in proportion to their use of its services--whereas in a general business such amounts are paid to investors in proportion to their investments in the enterprise.

3. In a cooperative the patron-members control the organization through democratic procedures--control is not exerted by owners of the capital invested in proportion to the capital they have contributed.

I have endeavored to show that a cooperative is a special type of business which has been found suited to the needs of those who wish to serve themselves. Those who benefit from its operations are the ones who control it and who provide the risk capital needed to make it a going business. It is a form of business which enables farmers to achieve advantages in better production, better purchasing, and better marketing. Cooperatives simply extend the farm business so that it becomes something more than an isolated enterprise dependent for its production, purchasing, and marketing services on other business establishments. It becomes an autonomous part of an economic solidarity.

Farmers thus have a choice in the way they carry on their business affairs. They can choose the route of self-help and create their own business organizations, or they can obtain the business services they need from others.

Farmers or others have a basic right to look out for their own welfare. They must do so to survive and prosper--and experience indicates that they will do so through the formation of cooperative organizations whenever they understand that it is to their advantage to do so.

Objectives Must Be Understood

It is important to know what the objectives of a cooperative are and they should be stated when a cooperative enterprise is formed. This will avoid any misunderstandings. If a cooperative is set up to market products it is essential that those interested in forming a cooperative be well informed on the problems and methods of marketing. For example, to be successful a marketing business of any kind must produce a product that people will desire and buy. It must be packaged attractively and it must be of a desirable quality and appearance.

Say, for example, that a group of women are interested in setting up a handicraft cooperative. They must see that products are manufactured at home or in a common center, with the market for them in mind. They must know where they can sell their products.

Under modern conditions in which big businesses are so important, cooperatives must be large enough to get all the advantages of spreading costs in management and in advertising and in other overhead functions. Wherever possible it is desirable for small cooperatives getting started to have close relationships with larger cooperatives which may help them with advice and assistance and perhaps perform some functions for them.

It is important to realize that many cooperatives have been started without adequate study. The need for a cooperative must be clearly understood and established so that there will be a clear opportunity for it to perform a desired function. Moreover, many cooperatives begin business operations without adequate provision for capital. A financial program should be developed when a cooperative organization is started that will look forward to growth.

Too many cooperatives attempt to do too much too soon. It is better for an organization to start small and perform a limited service until it can establish itself. Then with experience it may be able to expand and take on other activities.

Those interested in forming a cooperative should be sure that they have competent advice before they make serious legal errors. Legal advice is often available from government or educational institutions or from cooperative central organizations. There are many publications available on how to start a cooperative. These should be carefully studied

by the organizing group so as to avoid common mistakes. It must be clearly recognized that business efficiency is essential to cooperative performance and success. It should never be forgotten that cooperatives are business organizations and that they must follow sound business practices if they are to provide services to members economically and effectively. To be efficient, cooperatives must have competent management and competent employees. The membership must have full information of an educational nature because the members are responsible for selecting capable directors who will be their representatives in providing good management.

Unfortunately, there still are many misconceptions as to what cooperatives stand for and they can be cleared up only by patient educational work. Several years ago I wrote an article on "What People Don't Know About Cooperation," in an effort to break down misinformed and prejudiced opposition toward them. I said then, "What people do not know, they fear, and what they fear, they are apt to oppose--blindly."

Let me quote a few sentences from that article:

> "Many do not know that cooperatives are increasing the economic literacy of the farm population by teaching them the economic facts of life.
>
> "Many do not know that cooperatives are constantly increasing the vitality of our democratic form of society by giving people a part in the control of their own business affairs.
>
> "Many do not know that cooperatives, by building self-reliance, reduce the dependency of farmers on government.
>
> "Many do not know that cooperatives operate on a cost-of-service basis...that they represent farmers who are in business for themselves--not to make a profit from serving others."

As farms are family-type businesses which serve the needs of farm families, cooperatives that serve them cannot be considered the private property of men alone. I am in accord with the following conception of a cooperative as given by a woman: "Farmer cooperatives /are/ voluntary business organizations of farm families, providing, through democratic economic principles, a more satisfying way of life." (Mrs. Edwin Fry, American Cooperation, 1948, p. 28)

What Women Have Done

While most farm cooperatives are designed to meet the needs of both men and women, there are many cooperatives that have been formed exclusively by women because they are closely related to women's interests. The thriving women's institute stalls in the British Isles are good examples of this form of cooperative organization. Not only do such cooperatives perform useful service--they also provide valuable business experience to the women who operate them.

Many years ago when I was a Professor in the College of Agriculture at the University of North Carolina I worked closely with the Women's Markets, sponsored by the State Home Demonstration Service. I am proud of the fact that I suggested a slogan for these markets which was generally adopted: "Where Town and Country Meet." These markets still perform a valuable service but they are less important than they were when farming and merchandising were less specialized. Such markets are commendable in many ways.

> They teach farm women the advantages of working together.
>
> They educate farm women in the principles of marketing.
>
> They provide farm women with added incomes for their families.
>
> They build friendly relationships among farm women and between town and country women.

We have a remarkable example of a farm women's market in the community where I live--the Montgomery County Farm Women's Cooperative Market, Inc., of Bethesda, Maryland, a suburb of Washington, D C. Back in 1932 when we were going through the great depression, a group of farm women called upon the Home Demonstration Agent for a plan. Soon 19 women were selling their baked goods and fresh farm produce under a tent in Bethesda. Later the market was incorporated as a cooperative and it moved into a rented building. The women now own the building "lock, stock, and barrel," for the mortgage was paid off and burned years ago. This market has become an institute in the Washington metropolitan area. I think that its greatest achievement has been the friendship that it has built between town and country people, although its value to the farm women and their families is incalculable. In the 35 years of its existence farm women have sold more than $7 million worth of home-produced products through it.

There are also other instances in many countries of farm women's cooperatives where farm women raise their incomes through joint marketing of handicraft or other home-produced products. It is generally found that cooperation is a necessity in successfully marketing such products, or in obtaining the necessary raw materials for their production.

Incidentally, I am greatly interested in the Country Markets program of the Irish Country Women's Association. This development has an inspiring history and I am pleased that Country Markets now operates 18 Produce Markets and one Handicraft Market. This last venture is a very promising effort and I am pleased that it is winning through and helping raise rural incomes in an area of small farms. The spirit of Sir Horace Plunkett and Paddy the Cope is far from dead in Ireland.

I believe that such cooperatives, largely formed by women in connection with farm home activities, will grow in importance with good leadership

and experience. There is one highly important thing that comes from such cooperative activity--it teaches people how to cooperate. If people learn how to cooperate in any one activity they will be more inclined to cooperate for other purposes.

In the more highly developed countries most cooperatives have ceased to be small informal organizations. They have attractive facilities and first-class equipment and all the other apparent attributes of modern business enterprise. This is not a sign of retrogression. Many years ago AE said, "Big business requires big brains and big money. Our movement is training farmers to do big business. You farmers will soon have to learn to think in millions. Don't let that alarm you." I agree with AE. Big cooperatives can be good cooperatives as long as they retain their basic cooperative features.

As cooperatives become large comprehensive organizations, they must give increasing attention to one basic problem. That is--how can members be kept informed and interested so that they will be able to manage and control the large organizations found necessary to perform effective services in the modern business world? If members lose control, the whole cooperative edifice collapses, and the organization ceases to be operated for their sole benefit. Therefore, as cooperatives grow in size and scope the problem of membership education becomes of paramount significance.

Women -- Partners in Cooperatives

This is where women can play a vital role--for they are born educators and conservators. If farm women understand that cooperatives are important to their own welfare you can be sure that their husbands and sons and daughters will also recognize their importance. I have great confidence in the persuasive powers of women.

What can women do to help cooperatives which are large and complex organizations? They can see to it that the cooperative really serves their needs. They can demand that the organization not overlook the fact that the cooperative is designed to serve them, as well as the men in the family. Women can help cooperatives improve their methods.

I have found frequently that women have many suggestions for the good of an organization that would be overlooked by men. Women have something valuable to contribute, and they should demand opportunities to be helpful. Above all, women can, and should, take steps to really find out how cooperatives work for otherwise their views will have little meaning. It stands to reason that if women know how cooperatives work they will then be able to offer suggestions of a practical nature. In this connection women can demand that financial and other reports on a cooperative be presented in such a way as to be understandable to them. In too many cases cooperative reports are presented in technical language that is not understandable even to those who have management responsibilities. Women can help cooperatives see that the informational and educational materials issued by a cooperative have a human interest appeal.

It is my firm belief that farmer cooperatives will give increased attention to the importance of women as partners in farming in the years to come. It would be poor business practice for them not to do so. I find it very encouraging to see farm women beginning to speak up and demand that their talents be more fully used in making the cooperatives which serve their families more successful. Let me quote from a speech made recently at the annual meeting of an important farmer cooperative in Iowa by Mrs. Lawrence Everett, the mother of five. She said, "Let's help keep farm cooperatives in the forefront of a free, creative American agriculture, and let's give the feminine side some worthwhile tasks in this effort." Mrs. Everett is a crusader and she firmly believes that "farm cooperatives hold the greatest potential for independence of farmers as an economic and cultural group." Mrs. Everett holds that every farm is a partnership and she is determined not to be a silent partner.

In a recent letter Mrs. L. W. Everett told me how women respond to her views. She says the most common reaction is this:

> "I've always been curious about the business side of agriculture, but I didn't have the courage to speak up, to ask questions for fear the men would think it was none of my business."

Other common reactions are:

> "I've been so busy being a mother that I forgot that I also am a farmer's wife and a partner in our business."

> "I had no idea there were so many things that I could actually do to improve our cooperative. I thought only men were important in the business."

Mrs. Everett went on to give me some good advice for this talk, and I am going to pass it on to you. She said:

> "It's been my experience that women really want to understand the economics of agriculture but aren't sure they can. Anything you can do or say that encourages them to read widely on the subject, that prods them to be a part of farm business activities, that helps them locate understandable sources of information, will be beneficial to women whether they are American or otherwise."

Mrs. Everett, I am doing my best to follow your good advice.

Recently, I attended a State cooperative conference in Georgia where four women presented their views on how women could help make existing farm cooperatives more successful. I was impressed with the earnestness and competence of these women. They were anxious to have greater opportunities to use their special talents to improve cooperative performance. These women were not impractical.

They recognized that a cooperative is a business and not a social club. They simply pointed out many ways in which a woman's touch could help improve cooperative business efficiency while providing greater satisfactions in the services rendered. For one thing, they thought that the housekeeping of many cooperatives could be improved so that it would be more pleasant to deal with a cooperative place of business.

In my talk yesterday on Education for Cooperation I referred to the very fine women's programs developed by two of our major American cooperatives --the Home Service Department of the Dairymen's League which has functioned effectively since 1925, and the Farm Home Service Department of the Southern States Cooperative which now has had twenty years of experience.

I cannot speak too highly of these two programs for they demonstrate how programs of this kind can be fashioned to enlist the interest and support of women in farm cooperative organizations. I wish that Miss Helen Smith and Miss Mattie Kessler, the women in charge of these programs, could be here to tell you how these programs work, but in their absence I'll be glad to tell you more about them in the panel discussions.

The women's programs of the National and State Rural Electric Cooperative Associations have also given women a vital role to play in rural electric cooperatives throughout the United States.

In many parts of the world credit unions or credit cooperatives are important forms of agricultural cooperation. They help people save and expand their resources and understand the principles of cooperation. Many other forms of cooperative activity have grown out of the success of such credit cooperatives. One of the most successful credit unions that we have in the United States is the Hereford Texas Federal Credit Union, which is managed by a very dynamic woman--Mrs. Dyalthia Benson. In a talk a few years ago she said

> "By pooling our resources and working together we have helped ourselves and our neighbors, we have built in ourselves a degree of financial security through our credit union, unattainable in my opinion, in any other way. The history of our program is irrefutable evidence that any group of people can do as we have done--provided they have faith in themselves and the will to work together." (American Cooperation, 1960)

When I was preparing for this talk I wrote to Mrs. Benson and asked her this question: "Why should women have a place in cooperatives?" She replied: "Because women need to be concerned about finances. Most of them want to have new appliances, up-to-date homes, and new cars." Mrs. Benson maintains that women have their own logic, and she illustrated this with a story that you might enjoy, for up to this point there hasn't been much humor in this talk. Now for the story:

Adam and Eve were busily naming the animals in the Garden of Eden when a hippopotamus walked by.

"What shall we call the beast?" asked Adam.

"Let's call him a hippopotamus," suggested Eve.

"Now, why in the world would you want to call him that?" returned Adam.

"Well," said Eve reflectively, "he looks more like a hippopotamus than anything we have seen."

As a well-married man, this seems like powerful logic to me.

I am aware that our experience in the United States may be quite different from that of some other countries but in the main it seems to me that we are all moving in the same direction--toward greater recognition of women in the work of cooperatives.

Women's Interest Now Worldwide

In preparing for this talk I endeavored to find out what rural women in various countries were doing cooperatively. I have been encouraged by what I have found, for there is a great deal of cooperative activity by women in one form or another in many countries. In some countries it is working together to gain educational or other opportunities. In other countries women are actively conducting or participating in cooperative business activities. I would like to see a full research project carried on to determine the extent and character of women's cooperative activities throughout the world, and the opportunities for expansion of their contributions to cooperative advancement.

There is much evidence in newly emerging countries to show that women are gaining an increasingly important place in cooperative advancement. This may be a slow process in its early stages but it can quickly gain momentum with technical assistance from various kinds of international agencies--governmental or private.

For example, I have been greatly impressed by reports of the Women's Education and Home Development Program now operating in Comilla, East Pakistan. This program covers work in general education, sewing, home sanitation, child care, first aid, poultry, handicrafts, etc. It promises to gradually "emancipate" women so that they can help strengthe the cooperatives which are an integral part of the interesting program for rural development being carried on in that country.

In Anand, Amul, India, women are taking an active part in the Kaira District Milk Producers' Union, Ltd., where buffalos provide all of the milk. As the womenfolk in the villages maintain and look after the buffalos it is necessary that women should be educated for the introduction of scientific practices of animal husbandry to improve

the efficiency of milk production. A lady extension officer has been engaged and she holds meetings of women in large and small groups of villages to improve animal husbandry and carry on cooperative educational work. This extension work is giving encouraging results.

So far, I have given little attention to the important role that women play in consumers' cooperation in many countries of the world. Although consumers' cooperation is most highly developed in urbanized areas, it is likewise important in rural areas and especially in developing countries. It is significant that the International Cooperative Alliance, with the support of the International Cooperative Women's Guild, has recently set up a department to deal with women cooperators' special interests. Attention will be given to "promoting the active interest and participation of women in every aspect of cooperative activity." One subject of particular interest is "informative labeling" to insure that buyers receive the quality and amount of products advertised. I realize that the members of the A.C.W.W. will be sympathetic to work along this line.

Time does not permit me to say more, although I am sure that there is something important to say for all of the countries that you represent, or you would not be attending this symposium. So I will close with one final paragraph.

I like to think of women as a force for cooperative advancement that has not yet been fully utilized. In this age of missiles we know that rockets are sent into the sky and then propelled further by booster shots of reserve energy. Cooperatives have this reserve of energy in the desire of women to help--if they will make use of it. And rural women should not be passive in making this reserve of energy available to cooperatives for they have as much at stake as men--the prosperity and happiness of farm living.

Thank you.

EDUCATION FOR COOPERATION*

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

I am greatly honored to have this opportunity to address your great and influential organization. It always gives me happiness to work with women, and the happiness is compounded to be in Ireland, the mother country of many of our rich conceptions of what agricultural cooperation can achieve and especially the idea that the end to be sought from cooperation is better rural living.

It seems to me that my assigned subject, "Education for Cooperation," could just as well be stated as "Cooperation for Education," for there can be no education without cooperation between teacher and pupil, and cooperative forms of organization are in themselves instruments of education.

Until I was invited to give this talk I did not appreciate the importance and significance of the Associated Countrywomen of the World. I didn't realize that the A.C.W.W. was comprised of nearly 200 member societies in more than 50 countries, with a total membership of seven million country women. I didn't know of your "pennies for friendship" scheme that has enabled A.C.W.W. to become an important force in people to people cooperation.

One of the great problems of our world today is to create better understanding and better communications among people--both within and outside of our own countries. We are too much inclined to live and think in terms of our own countries or neighborhoods. We don't know, or sufficiently care, how others live and think. However, this meeting is evidence that many are coming to realize that all of the world is a neighborhood and that the world's future depends upon the rapidity with which we can weave ties of friendship among the peoples of all nations.

I am of the opinion that one of the most promising developments of recent years has been the rise of women into positions of prominence within their countries and in international organizations. In my own country Mrs. Eleanor Roosevelt demonstrated how much a woman could do to improve her world. What women could do if given more opportunity was recognized by President John F. Kennedy when he established a National Commission on the Status of Women. President Lyndon B. Johnson has followed up by leading a vigorous campaign to bring highly qualified women into more positions of national importance. At the present time Mrs. Esther Peterson is Special Assistant to the President for Consumer Affairs and Assistant Secretary of Labor. She is continually on the alert to see that consumers' interests are protected. In my own Department I am proud to say that Mrs. Dorothy H. Jacobson is now Assistant Secretary of Agriculture for International Affairs. She is, by the way, exceptionally well informed and deeply interested in all types of cooperative organization. These are representative of many other women who are contributing to the attainment of President Johnson's conception of a Great Society.

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I have examined with great interest the historical roots of the Associated Countrywomen of the World. Like all great organizations, it represents a confluence of many social, economic and political forces. While Canadian women can be proud that the foundation stone was laid by the work of Mrs. Alfred Watt, great seminal forces were at work in many countries during the latter half of the nineteenth century. They gradually came into fruition through the formation of rural women's organizations in various countries which have fused to make this tremendous agency for international rural improvement.

The nineteenth century was a time of ferment in many parts of the world, and this gave women an opportunity to break away from old customs and gain a greater measure of recognition as equal partners with men. During much of this period the Sovereign of the worldwide British Dominions was a woman--Queen Victoria. Women could not be overlooked with Queen Victoria on her throne.

Other women who brought great respect to their sex during the nineteenth century included such great English novelists as Jane Austen, the Bronte sisters and George Eliot and, in the United States, Harriet Beecher Stowe, the author of the book which did so much to arouse sympathy for the Negro slaves--Uncle Tom's Cabin. Florence Nightingale revolutionized hospital administration and served as "a source of inspiration and practical help to all who were working for social causes in every part of the world." By showing "what a woman could do in practical statesmanship. . . /she/ helped forward the cause of women's freedom everywhere." (Encyclopaedia of the Social Sciences). Moreover, it is very significant that one of the leading thinkers in the worldwide spread of the cooperative movement was Beatrice Potter (later, Mrs. Beatrice Webb). Her book, The Cooperative Movement in Great Britain, published in 1891, was soon translated into a dozen languages. It was the first book to provide a theoretical foundation for the practice of consumers cooperation.

Of particular interest to us is the fact that the Women's Cooperative Guild was formed as an adjunct of the British Consumers' Cooperative Movement in 1883 under the name, "The Women's League for the Spread of Co-operation." It was formed (1) "to spread a knowledge of the advantages of co-operation," (2) "to stimulate. . . a greater interest in the principles of co-operation, (3) "to keep alive in ourselves, our neighbors, and especially in the rising generation, a more earnest appreciation of the nature of co-operation to ourselves, to our children, and to the nation and, (4) to improve the conditions of women all over the country."

The Women's Guild movement grew rapidly and by 1893 there were 6,000 members and 137 branches. From its beginning, education broadly defined was one of the principal activities of the Guild movement. A very remarkable woman--Mrs. Margaret Llewelyn Davies--was General Secretary of the Guild from 1889 to 1921. According to Leonard Woolf, Virginia Woolf's husband, Mrs. Davies was "a Joan of Arc to her cohorts." How much influence the Women's Guild had on the rise of the Women's Institutes

in Canada in the late nineties, I do not know, but it probably provided something of a pattern that could be adapted to rural conditions. The Guild no doubt influenced Sir Horace Plunkett who studied the consumers cooperative movement in England during the 1880's for ideas that could be transplanted into rural Ireland.

Now that I have mentioned Plunkett, I wish to stress his significance in the context of the subject assigned me. If any one name stands first as an "educator for cooperators" it is, in my opinion, that of Sir Horace Plunkett. And Plunkett did not overlook the importance of women in "education for cooperation."

The Contribution of Sir Horace Plunkett

It is not possible here to explain fully why the name of Horace Plunkett is so important to our subject today. But the essential facts are these: After spending several years cattle-ranching in Wyoming, U.S.A., Plunkett returned to Ireland in 1887. He was then thirty-four, and anxious to be of service to his country. He became deeply interested in the problems of Irish farmers, who were extremely poor and leaderless. He began to see the possibilities of cooperation as a means of self-help, and the idea grew upon him. He started to form cooperative societies and he turned to his friends for help. His earnestness persuaded men like Lord Monteagle, R. A. Anderson, and Father Thomas Finlay, S. J., to join with him, and the number of such loyal associates gradually grew.

Plunkett first tried to set up consumer stores but he soon saw that cooperative creameries had more promise, so he turned to this more distinctive type of farmer cooperation. It was slow and discouraging work, for the difficulties were almost insuperable--but eventually the dream began to take on substance. Plunkett had inexhaustible patience, and failures did not daunt him. He knew that his program was right for Ireland and his confidence in its importance and ultimate success carried his little band of colleagues with him.

To achieve his ultimate end--nothing less than the reorganization of rural life in Ireland by means of cooperative associations, Plunkett needed a national organization. He conceived the idea of the Irish Agricultural Organisation Society--which soon became known as the I.A.O.S.--and this organization was formed in May, 1894, with these objectives:

> "To improve the condition of the agricultural population of Ireland by teaching the principles and methods of cooperation as applicable to farming and the allied industries, to promote industrial organization for any purposes which may appear to be beneficial, and generally to counsel and advise those engaged in agricultural pursuits."

It will be seen that this organization was largely devised as an educational organization which would provide technical assistance in the formation of agricultural cooperatives.

Plunkett's vision went further. He recognized that cooperative organizations could provide a "better business" organization for farmers--but he also recognized that Irish farmers needed assistance from the Government to obtain "better farming" methods. With the I.A.O.S. launched he turned his attention to this problem and, in a letter to all Irish newspapers, he submitted "a proposal affecting the general welfare of Ireland." He recommended that the party political leaders should each nominate a few members of Parliament to form the nucleus of a committee which was to include Irishmen representative of the agricultural, commercial, industrial, and professional interests of Ireland, North and South. The purpose was to promote legislation on which all parties could substantially agree. Plunkett's proposal met with an immediate response and, although there was serious opposition, the proposed committee took shape under Plunkett, as Chairman.

The report of this committee called for measures to improve technical education for Irish farmers and it led to the establishment of the Department of Agriculture and Technical Instruction in 1899, with Plunkett in charge. Great difficulties beset Plunkett in getting this new Department established but, together with the I.A.O.S., it inaugurated a rural renaissance that attracted attention in many parts of the world. It was through Plunkett's influence that President Theodore Roosevelt set up the American Country Life Commission in 1908, and this Commission transplanted many of Plunkett's ideas to the United States.

Plunkett's formula for rural improvement, the "Three Betters"--Better Farming, Better Business, Better Living--became known worldwide. He saw the key of the arch as Better Business and to him this could best come through agricultural cooperation in all of its forms: marketing, purchasing, production and credit. Better Business through cooperation would encourage Better Farming, but here Plunkett saw that Government could best render the necessary assistance through research and technical instruction. Plunkett realized that Better Business and Better Farming would produce as an end product Better Living--but he was concerned with more than better living in a material sense. He envisaged the creation of a rural civilization which would make rural life pleasant and rewarding.

In his book, The Rural Life Problem in the United States (1910), Plunkett gave special attention to the position of women in rural life, for he recognized that women had a direct concern with all three parts of his program for "better farming, better business, better living." He held, however, that the greatest opportunity for women lay in what they could do to bring about better living for he understood that "the woman makes the home life of the Nation." He saw in cooperatives a mechanism through which women could make their "social usefulness" felt.

In 1897 Plunkett had found the man to develop his concept of Better Living in the great Irish poet, "AE" (George Russell). AE was not only a dreamer and a mystic. He was also intensely practical and the most gifted writer who has ever espoused agricultural cooperation. As a controversialist in the battles for recognition of the cooperative idea while Editor of the Irish Homestead he has had no peer.

AE was attracted to the cooperative idea because of what it could do to strengthen the rural community. He saw clearly that rural women could not be left out of any program designed for the improvement of conditions in the rural home. AE once said, "The business of women is really to civilize men." Women have been working on this task for centuries but only within the past few decades have they come to realize that this is essential for their own survival.

Out of the writings of AE and the encouragement of Plunkett, the United Irishwomen (now the Irish Countrywomen's Association) was born in 1910. This organization was frankly designed to further the better living concept of Horace Plunkett and it was organized as a sister organization of the I.A.O.S. The story of its formation is told in a little book, The United Irishwomen, issued by the I.A.O.S. in 1910. In its introduction, Father Finlay said: "Money results, important though they are, were not the ultimate aim of the founders of the Irish Co-operative Movement. Their purpose was to establish on an improved economic basis a higher and more satisfying home life in rural Ireland." In this book Sir Horace Plunkett saw the United Irishwomen "drawing /women/ out of their isolation, teaching them to teach others, and forming them in an ordered league of workers that shall penetrate every corner of our country and leave it a better and happier place than they found it."

No one was more pleased by the growth of women's organizations throughout the world to improve rural conditions than Sir Horace Plunkett. It gave him great satisfaction that the Conference on Agricultural Cooperation in the British Empire, held in England in 1924, devoted its last day to a consideration of "rural community organization for better living." The keynote address at this session of the conference was given by Miss Grace Hadow, then Vice-Chairman of the National Federation of Women's Institutes in England, and she gave credit to Canada for the rise of the women's institute movement in England which is this year celebrating its Golden Jubilee. Miss Hadow proposed two resolutions which were unanimously adopted by the conference which should, in view of their current significance, be restated and re-emphasized today. I am sure, however, that if she were to rephrase her resolution in the light of world developments during the past forty years she would replace the word "Empire" by "world," and so I am doing so:

> "1. That agricultural cooperators throughout the /world/ be reminded of the necessity for interesting in their movement the rural organizations of women.
>
> "2. That all rural organizations of women be urged to interest themselves in the applications of cooperative methods to agriculture, not only for economic reasons, but because experience has shown the system to be the best means of promoting social advancement in the rural community."

These resolutions--to my mind--are still appropriate today. Many cooperatives need to be reminded that women have a place--a unique place--in the progress of agricultural cooperation. And many women who are concerned with rural improvement need to know more about agricultural cooperation as a means through which they can be helpful.

Before going on, I would like to say that I think it is highly significant that the person who has done the most to carry forward the aspirations of Plunkett is a woman--Miss Margaret Digby, who has long served as Secretary of the Foundation founded by Plunkett to continue his life's work. Her biography of Plunkett is a lasting monument to his career.

The Contribution of Seaman A. Knapp

While Sir Horace Plunkett was forging the Irish cooperative movement as an instrument for rural improvement, Seaman A. Knapp--the founder of the Extension Service in the United States--was conducting an equally important experiment. The ideals of the two men were not opposed--they simply took two different routes to achieve the same end.

Seaman A. Knapp was a born educator who realized that success in any endeavor calls for cooperation. His first experience in education was teaching in a college for young women. The objective of the college was "to develop the pupils into an intelligent, refined, heroic womanhood." Many years later he became President of Iowa State Agricultural College which has become one of our major universities. In this post he was one of the promoters of the Hatch Act of 1887 which set up our system of state agricultural experiment stations. Knapp realized that teaching calls for the development of new knowledge by means of research.

In a speech on education in 1885 Knapp held that it was vital to the nation that young women receive a college education that would fit them "to become the companions and co-laborers of men in the industrial life of the country. . ./for/ the woman who shares /a man's/ struggle for subsistence should understand household arts and economics." He pointed out that "Political economists. . .have not recognized that in life's struggle the spoon is greater than the shovel; that more is expended for bonnets than for barns; that more capital is deposited in stomachs than in national banks."

The great contribution of Seaman A. Knapp came when he was nearly seventy years of age. At that time he perfected the cooperative farm demonstration system approach to meet the onslaught of the cotton boll-weevil. This led to the employment of "county agents" and the development of the Cooperative Extension Service which stressed the importance of demonstration as an educational device. Knapp's philosophy was expressed in this aphorism: "What a man hears he may doubt, what he sees he may possibly doubt, but what he does himself he cannot doubt." We can think of cooperative organizations also as demonstrations, in which people find that they can meet many of their problems by working together.

Although the County Agent Program started with men, Knapp soon saw how it could be broadened to embrace the whole farm family. Boys' corn clubs, calf clubs, pig clubs and potato clubs grew to become the 4-H Clubs, which now cover rural areas throughout the United States._/

_/ It is highly significant that 4-H or similar clubs are now found all over the world.

His biographer, Joseph C. Bailey, calls the inauguration of home demonstration work the "capstone of Knapp's edifice." After 1910, women Home Demonstration Agents worked with women on their problems of particular interest for the benefit of the whole rural community and here the better living concept of Plunkett was given full play. Knapp recognized that "the great force that readjusts the world originates in the home," and that women largely control the standard of living on the farm.

I am proud to say that while a professor at the University of North Carolina from 1929 to 1934 I was privileged to work intimately with one of the great pioneers of Home Demonstration work, Mrs. Jane Simpson McKimmon. Those of us in agricultural work in North Carolina paid Mrs. McKimmon tribute by referring to her as "Our First Lady." She was very much interested in the improvement of the home demonstration women's markets, and I became her technical adviser on the operation of these markets. The spirit of Mrs. McKimmon is captured in her autobiography, When We're Green We Grow. When I first met her she said to me, "Dr. Knapp, I want to tell you something about our people in North Carolina. We are conservative. We are like a flat iron. It takes a long time to heat us up but when we get heated for a worthy cause we stay hot." I found that she was right. In her book Mrs. McKimmon has a chapter on the Associated Countrywomen of the World in which she tells with glee how North Carolina sent 680 of its organized farm women to your triennial meeting held in Washington, D. C. in 1936.

The work of Horace Plunkett and Seaman A. Knapp was complementary. Each broadened the dimensions of the other. The seed that they planted has flourished vigorously. And yet, who can say that we have reached their full aspirations?

Education and Cooperation Go Together

As I see it, education and cooperation are like Siamese twins. They cannot be separated. Cooperative organizations are dependent for their success on well-informed members. Without continuous education of members, cooperatives dry up and lose their vitality. In our work with cooperatives in the United States we recognize that education of members is essential for business success--for well-informed members will select competent directors who will, in turn, ensure that managers and necessary employees will capably look after their business interests.

But education for cooperation calls for something more than education in cooperative procedures. There must be continuous education on the meaning of cooperation itself. Cooperation calls for involvement of the individual. To make it succeed there must be people who understand its principles, who are convinced of its necessity, and who will commit themselves to its success. Cooperation is a practical philosophy--but its highest appeal is not materialistic. Its methods are economic--but economic gain is not its final goal. Cooperative aims must envisage a better world--and the great strength of cooperative organizations throughout the world today comes from the fact that they are striving to help create a better world.

To my mind, those who wish to improve the living conditions of rural people through education cannot ignore the cooperative form of organization as a means to that end. As W. P. Watkins, formerly Director of the International Cooperative Alliance, once said, "Cooperation is an educational movement which makes use of economic action."

Unesco in 1950 published a very fine report on Cooperatives and Fundamental Education, by Maurice Colombain. This report showed how education for cooperation was being carried on in many countries. Mr. Colombain held that rural cooperative societies constituted the most convenient system for conveying quickly expert counsel and advice to agricultural population. To him cooperative societies were "practically vocational schools."

This point was made clear by Lady Jackson, better known as Barbara Ward--the renowned authority on worldwide social and economic problems--when she addressed the 24th Biennial Conference of the Cooperative League in Chicago last November on "Cooperatives--A Worldwide Need." She termed cooperatives one of the key answers to the development problem in the modern world. She said: "Wherever you can get a cooperative breakthrough, I believe profoundly, you will get far more modernization than by any other route, and far more rapid modernization pointing towards the kinds of society in which people actually will want to live." She went on to say: "We're not just interested in the creation of wealth, although heaven knows we're desperately interested in that as well, because without wealth there is no opportunity. We are also profoundly interested in the quality of the societies that are built. In this context, the cooperative principle is of absolutely crucial importance." This statement by Barbara Ward is in the great tradition that "not for bread alone" should we aspire.

Although cooperatives are worldwide in scope and importance there are still many people who do not understand what they are or how they are formed and operated. There is a great need for education to help people know the principles embedded in cooperative business enterprises. Many have heard of the Rochdale Principles but know little of how these principles have been modified and modernized to meet varying conditions.

If we are to educate to achieve better cooperation we must know what we are educating for. It is essential that people know what cooperatives are if they are to teach others how to form and use such organizations.

Basically, cooperatives are business organizations formed by people to serve themselves. Plunkett called them "self-help organizations." Their distinguishing characteristic is that they are not organized to make a profit from others. Any savings from performance of their own business functions are returned to members in proportion to their use of the services provided. Such cooperative organizations are found in practically every country of the world.

I believe firmly that women should be as well informed as men on how cooperatives function, for farming, more than any other occupation, is a man-woman partnership. Some of our cooperatives in the United States are coming to realize this fact--although I must admit that many cooperative leaders do not yet admit this in public. In a talk at the American Institute of Cooperation in 1937 on "The Farm Woman's Place in the Cooperative Movement," Miss Vera McCrea, then Director of the Home Department of the Dairymen's League Cooperative Association, one of our major cooperative enterprises, said:

> "To me, the importance of the farm woman to agricultural cooperation seems no less than axiomatic. . .It is virtually impossible to run a farm, or the business of farming, without the cooperation and participation of the women or woman of the family. . .We must build up the belief and confidence of men in the work which is to be done by women. For true cooperation is all-embracing. . . It means working together for the common good, and this men and women can do if they will. I recommend this type of cooperation as an ideal--I will even go so far as to say the essential--of any cooperative organization."

Miss McCrea wrote a creed for the Dairymen's League's Home Department which is still the keynote of its work. You may find it of interest:

> "To maintain the highest ideals for the Dairymen's League Cooperative Association; to develop a love for and a loyalty to the organization, and thus assure a permanent and stable foundation; to think actively and intelligently about the League; to work for the highest type of leadership and for the highest quality products; and constantly to broaden and to extend the League's influence and its membership."

Miss McCrea was a great cooperative pioneer and her work with the Dairymen's League gained recognition for women in other cooperative organizations. After hearing Miss McCrea speak at an American Institute meeting in 1942, the officials of the Southern States Cooperative decided to give recognition to women. This large regional purchasing and marketing association which serves Virginia, Maryland, West Virginia and Kentucky, now has a very strong Woman's Department--known as the Farm Home Service--under the direction of Miss Mattie Kessler.

In a recent letter to me, Miss Kessler said, "Basically, my department attempts to educate," and by this she means improving the understanding of women on how cooperatives operate and how women can participate in making them of greatest use to the farm family. She says that "The good will which has developed through this program from members as well as local cooperative employees cannot be measured."

The Farmer Cooperative Service of the United States Department of Agriculture has long encouraged cooperatives to recognize and enlist the support of women. In 1956 we issued a report entitled "How Women Help Their Farmer Cooperatives" which describes the women's programs

of several cooperatives. It shows how women can help cooperatives by planning for farm and family needs and by programs for improving membership and public relations. Within the past month we have issued a circular under the title, "Directors and Wives--a Good Member Relations Team." This circular has been developed largely from talks presented by women cooperative leaders at a series of membership relations conferences held throughout the United States. Some of the headings in this circular will indicate what is covered: (1) The cooperative provides information; (2) Facts are needed and how to present them; (3) The member relations team works at home; (4) Cooperative business; (5) Family education; (6) Women auxiliaries; (7) Membership meetings; (8) Study groups; (9) Tours; (10) Youth activities; (11) Better housekeeping for cooperatives. As these publications are filled with ideas of interest to this conference I have brought a supply for your use in the panel discussions.

In this talk I have stressed three things:

First, I have noted how your great organization has evolved in response to a worldwide need for education and cooperation among farm women.

Second, I have maintained that education and cooperation cannot be dealt with in separate compartments. One cannot educate for rural improvement without cooperation in all senses of the word, and one cannot build cooperatives without educating people so that they will know how to make proper use of them.

Third, I have observed how women have been steadily gaining recognition for the contributions they can make to cooperative progress.

While women can help in achieving all of the goals for rural improvement set forth by Sir Horace Plunkett--better farming, better business, and better living--I believe that their greatest contribution can be in helping us keep the emphasis on what I think Plunkett considered the most important of the three--better living.

In this talk I have not dealt with cooperation in a technical sense, for I understand that we will give attention to cooperative educational methods in the discussion sessions. Moreover, I am assuming that the talks by Monsignor Smyth and Mrs. Bergstrom will provide information on educational procedures being used in other countries to promote cooperative development.

One of my younger colleagues in the Farmer Cooperative Service recently called my attention to a verse that he liked by AE and, interestingly enough, he wasn't aware that the author was a famous cooperator. The power of AE's words transcended his reputation. May I share this verse with you:

"It is a dull business,
Unworthy of being made in the
  image of God
To grind away at work
Without some noble end to be
  served,
Some glowing ideal to be
  attained."

Thank you.

PRODUCTION, PURCHASING AND MARKETING*

By Joseph G. Knapp, Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

We meet again to explore how rural women can further better living through working together. Yesterday I discussed the importance of education for cooperation. Today I will examine the contributions that you can make to rural prosperity through helping to build sound cooperative programs for production, purchasing and marketing.

Many years ago George Bernard Shaw wrote an important book that he called "An Intelligent Woman's Guide to Socialism and Capitalism." He assumed that intelligent women in a capitalistic age would want to know something about capitalism and the challenge of socialism. Perhaps someone should now write a book that might be called "An Intelligent Woman's Guide to Cooperation," for cooperation as a form of business enterprise is steadily gaining adherents throughout the world. In this talk I will present a few ideas that may help you determine how far you may wish to go into this subject. It is my general conviction that cooperatives merit more attention than women have so far given them.

We all know that cooperation in its broadest sense means reasoning and acting together to achieve goals. The idea of cooperation has in it the idea of participation. We work together, we play together, we use things together, we benefit together. One of our oldest instincts is to cooperate--Prince Kropotkin even maintained that mutual aid was a dominant animal trait. But as our world becomes more complex, can we rely on natural instincts to cause us to work together automatically? We may draw together in necessity, or in an emergency, but that is not enough. We have found it necessary to develop institutions of numerous kinds to facilitate cooperation. Governments, trade unions, trade associations, farm organizations and churches are all examples of agencies through which people work together and discipline their activities together. Families, tribes, nations and the United Nations are all forms of cooperation.

Cooperation implies mutual action to achieve common objectives. We speak of international cooperation. For what purpose? The answer is, to achieve and maintain peace and thus avoid war. Cooperation is a great civilizing force.

Cooperation is not without its rules. The Ten Commandments gave us laws to help us guide ourselves in accordance with moral principles. They have helped mankind take steps toward human dignity. Cooperation, to enable people to carry on business affairs together in an efficient manner, must have, likewise, its rules--and those interested in cooperative organizations of all kinds have unceasingly attempted to improve the rules for working together so that there will be a better understanding of how cooperation can be most effectively carried on.

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We call organizations that are set up for the purpose of conducting business affairs together cooperative businesses, and as far back as 1844 the Rochdale pioneers helped us develop rules for cooperative businesses. These rules, modified to meet modern needs, are still useful today.

Up to this point I have been talking about cooperation in its broadest sense. I have tried to indicate that in every phase of human life people can cooperate to achieve goals beyond the reach of individuals acting alone. These general comments will, I hope, provide a background for the rest of my talk which will deal more directly with rural cooperatives and the role of women in helping them achieve success.

I am sure that all of you will agree that the prosperity of the farm home depends upon the efficient production of crops and livestock, the efficient purchasing of supplies, commodities, and services needed on the farm and in the farm home, and the efficient marketing (including assembly, processing, transportation, etc.) of the crops and livestock produced on the farm.

Farmers in all parts of the world have found that they can use cooperative business organizations to advantage in performing these necessary production, purchasing, marketing and other related business functions. These functions are generally interrelated. Efficient production must be guided by the needs of the market, for crops, livestock and livestock products must be produced to meet the requirements of consumers. Moreover, efficient production demands that supplies of seed, fertilizer, feed, petrol, and farm machinery be purchased efficiently so as to obtain supplies of good quality at lowest possible cost.

The individual farmer or farm family generally is too small as an economic unit to produce, buy and sell to advantage independently. By joining together with other farmers or farm families in a cooperative business organization, the combined group can obtain the economies and the fruits of large-scale operation.

Many years ago AE (George Russell) made this point clear in his "Talks With an Irish Farmer," (Irish Homestead, 1916). In these talks AE spoke intimately to all Irish farmers--and thus to farmers throughout the world--on the problems of their industry and on the way farmers through self-help cooperation could meet them. Although agriculture has gone through a world revolution since these talks were given, there is no better source for study of the basic truths involved in the philosophy of agricultural cooperation. AE said:

> "Cooperation means working together. It is a joining of energy to do something which cannot be done so well or at all by people working separately. . . . When cooperation is applied scientifically to the business of a farmer it helps him in three directions.
>
> "First, if he and his neighbors buy together the raw materials of their industry, their seeds, fertilizers, feeding stuffs and implements, they can get them at wholesale prices and be sure they are of good quality. Farmers are entitled as manufacturers to buy at wholesale. . .

"Secondly, it helps him produce better, because a society of farmers can easily buy machinery too expensive for an individual farmer to hold but which the group can use together with great profit. . .

"Thirdly, cooperation will enable farmers to market better, to get directly to the consumer, the wholesaler or the final retailer in the towns. . ."

AE looked beyond the material benefits that cooperation could bring--for he saw values in the very act of cooperating of even greater significance. He went on to say: "The cooperative farmer, once he joins a society, makes a great stride to becoming a real citizen of his country. . . All work for each other instead of working alone, and often against each other. . The way to get rid of bad habits is to form good ones, and it is a good habit to work with other men for objects approved of and well understood."

The cooperative business organization has been found well adapted to the needs of agriculture since this industry is comprised of many individual farm business units consisting largely of the farmer and his family. This is the general pattern of farming in most countries today.

We can look upon farms themselves as small informal cooperative businesses. Mrs. Charles W. Sewell, who was long the Administrative Director of the Associated Women of the American Farm Bureau Federation--and for some years your President--once maintained that the farm home was America's original cooperative. Let me quote from what she said, "The farm home is a small democracy and possesses many of the qualities of a first-class cooperative. Each member of the farm contributes his or her share of effort and each will share respectively in the profits thereof. There is only one vote to a member and that is usually cast by the father, although mother has likely influenced his thinking so as to get a vote in his, herself." (American Cooperation, 1946) Without question, a happy farm home is built on the principles of give and take that are essential to true cooperation.

Before going further, I think it is important here that we recognize that farming is uniquely a family business and that women are deeply involved in its success. If the farm business prospers women are able to obtain the things that they hold dear: education for their children, perhaps a more modern kitchen, or an automobile--not to speak of a new dress or hat. Farm women work along with men to make the farm a success. They may keep the garden, raise the chickens, care for the livestock or work in the fields. Many wives maintain the business records for the farm--and I am informed by a friend who handles farm loans that most farmers will not dare to make a serious business decision unless it is approved by their wives.

The cooperative business organization is distinguished by the fact that it is designed to serve an end rather than be an end in itself. Its success is measured by its ability to serve the needs of its members, by performing needed services and by making savings for them, so as to enable them to increase their incomes from farming.

In a cooperative association the savings are returned to the members in proportion to the use they make of the association. Thus, cooperatives in themselves are non-profit organizations, for everything over costs reverts back to the members in savings. Profits are not kept by the cooperative for distribution to those who supply the capital.

While I do not wish to be too technical, it is important that we do not over-simplify the cooperative method of operation. In outward appearance cooperatives may seem quite similar to other business firms. The main difference is that they serve people as members while other business firms serve them as customers.

There are three major distinguishing characteristics of a cooperative organization as compared to a general, or non-cooperative business:

1. Members of a cooperative seek to obtain services for themselves at cost--their object is not to obtain profit from providing services for others.

2. A cooperative distributes amounts remaining after payment of the costs of doing business among those who are served by the cooperative in proportion to their use of its services--whereas in a general business such amounts are paid to investors in proportion to their investments in the enterprise.

3. In a cooperative the patron-members control the organization through democratic procedures--control is not exerted by owners of the capital invested in proportion to the capital they have contributed.

I have endeavored to show that a cooperative is a special type of business which has been found suited to the needs of those who wish to serve themselves. Those who benefit from its operations are the ones who control it and who provide the risk capital needed to make it a going business. It is a form of business which enables farmers to achieve advantages in better production, better purchasing and better marketing. Cooperatives simply extend the farm business so that it becomes something more than an isolated enterprise dependent for its production, purchasing and marketing services on other business establishments. It becomes an autonomous part of an economic solidarity.

Farmers thus have a choice in the way they carry on their business affairs. They can choose the route of self-help and create their own business organizations, or they can obtain the business services they need from others.

Farmers or other have a basic right to look out for their own welfare. They must do so to survive and prosper--and experience indicates that they will do so through the formation of cooperative organizations whenever they understand that it is to their advantage to do so.

It is important to know what the objectives of a cooperative are and they should be stated when a cooperative enterprise is formed. This will avoid any misunderstandings. If a cooperative is set up to market products it is essential that those interested in forming a cooperative be well informed on the problems and methods of marketing. For example, to be successful a marketing business of any kind must produce a product that people will desire and buy. It must be packaged attractively and it must be of a desirable quality and appearance.

Say, for example, that a group of women are interested in setting up a handicraft cooperative. They must see that products are manufactured at home or in a common center, with the market for them in mind. They must know where they can sell their products.

Under modern conditions in which big businesses are so important, cooperatives must be large enough to get all the advantages of spreading costs in management and in advertising and in other overhead functions. Wherever possible it is desirable for small cooperatives getting started to have close relationships with larger cooperatives which may help them with advice and assistance and perhaps perform some functions for them.

It is important to realize that many cooperatives have been started without adequate study. The need for a cooperative must be clearly understood and established so that there will be a clear opportunity for it to perform a desired function. Moreover, many cooperatives begin business operations without adequate provision for capital. A financial program should be developed when a cooperative organization is started that will look forward to growth.

Too many cooperatives attempt to do too much too soon. It is better for an organization to start small and perform a limited service until it can establish itself. Then with experience it may be able to expand and take on other activities.

Those interested in forming a cooperative should be sure that they have competent advice before they make serious legal errors. Legal advice is often available from government or educational institutions or from cooperative central organizations. There are many publications available on how to start a cooperative. These should be carefully studied by the organizing group so as to avoid common mistakes. It must be clearly recognized that business efficiency is essential to cooperative performance and success. It should never be forgotten that cooperatives are business organizations and that they must follow sound business practices if they are to provide services to members economically and effectively. To be efficient, cooperatives must have competent management and competent employees. The membership must have full information of an educational nature because the members are responsible for selecting capable directors who will be their representatives in providing good management.

Unfortunately, there still are many misconceptions as to what cooperatives stand for and they can be cleared up only by patient educational work. Several years ago I wrote an article on "What People Don't Know About Cooperation," in an effort to break down misinformed and prejudiced opposition toward them. I said then, "What people do not know, they fear, and what they fear, they are apt to oppose--blindly."

Let me quote a few sentences from that article:

> "Many do not know that cooperatives are increasing the economic literacy of the farm population by teaching them the economic facts of life."
>
> "Many do not know that cooperatives are constantly increasing the vitality of our democratic form of society by giving people a part in the control of their own business affairs.
>
> "Many do not know that cooperatives, by building self-reliance, reduce the dependency of farmers on government.
>
> "Many do not know that cooperatives operate on a cost-of-service basis. . . that they represent farmers who are in business for themselves--not to make a profit from serving others."

As farms are family-type businesses which serve the needs of farm families, cooperatives that serve them cannot be considered the private property of men alone. I am in accord with the following conception of a cooperative as given by a woman: "Farmer cooperatives [are] voluntary business organizations of farm families, providing, through democratic economic principles, a more satisfying way of life." (Mrs. Edwin Fry, American Cooperation, 1948, p. 28)

While most farm cooperatives are designed to meet the needs of both men and women, there are many cooperatives that have been formed exclusively by women because they are closely related to women's interests. The thriving women's institute stalls in the British Isles are good examples of this form of cooperative organization. Not only do such cooperatives perform useful service--they also provide valuable business experience to the women who operate them.

Many years ago when I was a Professor in the College of Agriculture at the University of North Carolina I worked closely with the Women's Markets, sponsored by the State Home Demonstration Service. I am proud of the fact that I suggested a slogan for these markets which was generally adopted: "Where Town and Country Meet." These markets still perform a valuable service but they are less important than they were when farming and merchandising were less specialized. Such markets are commendable in many ways.

> They teach farm women the advantages of working together.
>
> They educate farm women in the principles of marketing.
>
> They provide farm women with added incomes for their families.

They build friendly relationships among farm women and between town and country women.

We have a remarkable example of a farm women's market in the community where I live--the Montgomery County Farm Women's Cooperative Market, Inc., of Bethesda, Maryland, a suburb of Washington, D. C. Back in 1932 when we were going through the great depression, a group of farm women called upon the Home Demonstration Agent for a plan. Soon 19 women were selling their baked goods and fresh farm produce under a tent in Bethesda. Later the market was incorporated as a cooperative and it moved into a rented building. The women now own the building "lock, stock, and barrel," for the mortgage was paid off and burned years ago. This market has become an institution in the Washington metropolitan area. I think that its greatest achievement has been the friendship that it has built between town and country people, although its value to the farm women and their families is incalculable. In the 35 years of its existence farm women have sold about $7 million worth of home-produced products through it.

There are also other instances in many countries of farm women's cooperatives where farm women raise their incomes through joint marketing of handicraft or other home-produced products. It is generally found that cooperation is a necessity in successfully marketing such products, or in obtaining the necessary raw materials for their production.

Incidentally, I am greatly interested in the Country Markets program of the Irish Country Women's Association. This development has an inspiring history and I am pleased that Country Markets now operates 18 Produce Markets and one Handicraft Market. This last venture is a very promising effort and I am pleased that it is winning through and helping raise rural incomes in an area of small farms. The spirit of Sir Horace Plunkett and Paddy the Cope is far from dead in Ireland.

I believe that such cooperatives, largely formed by women in connection with farm home activities, will grow in importance with good leadership and experience. There is one highly important thing that comes from such cooperative activity--it teaches people how to cooperate. If people learn how to cooperate in any one activity they will be more inclined to cooperate for other purposes.

In the more highly developed countries most cooperatives have ceased to be small informal organizations. They have attractive facilities and first-class equipment and all the other apparent attributes of modern business enterprise. This is not a sign of retrogression. Many years ago AE said, "Big business requires big brains and big money. Our movement is training farmers to do big business. . . You farmers. . . will soon have to learn to think in millions. Don't let that alarm you." I agree with AE. <u>Big</u> cooperatives can be <u>good</u> cooperatives as long as they retain their basic cooperative features.

As cooperatives become large comprehensive organizations, they must give increasing attention to one basic problem. That is--how can members be kept informed and interested so that they will be able to manage and control the large organizations found necessary to perform effective services in the modern business world? If members lose control, the whole cooperative edifice collapses, and the organization ceases to be operated for their sole benefit. Therefore, as cooperatives grow in size and scope the problem of membership education becomes of paramount significance.

This is where women can play a vital role--for they are born educators and conservators. If farm women understand that cooperatives are important to their own welfare you can be sure that their husbands and sons and daughters will also recognize their importance. I have great confidence in the persuasive powers of women.

What can women do to help cooperatives which are large and complex organizations? They can see to it that the cooperative really serves their needs. They can demand that the organization not overlook the fact that the cooperative is designed to serve them, as well as the men in the family. Women can help cooperatives improve their methods.

I have found frequently that women have many suggestions for the good of an organization that would be overlooked by men. Women have something valuable to contribute, and they should demand opportunities to be helpful. Above all, women can, and should, take steps to really find out how cooperatives work for otherwise their views will have little meaning. It stands to reason that if women know how cooperatives work they will then be able to offer suggestions of a practical nature. In this connection women can demand that financial and other reports of a cooperative be presented in such a way as to be understandable to them. In too many cases cooperative reports are presented in technical language that is not understandable even to those who have management responsibilities. Women can help cooperatives see that the informational and educational materials issued by a cooperative have a human interest appeal.

It is my firm belief that farmer cooperatives will give increased attention to the importance of women as partners in farming in the years to come. It would be poor business practice for them not to do so. I find it very encouraging to see farm women beginning to speak up and demand that their talents be more fully used in making the cooperatives which serve their families more successful. Let me quote from a speech made recently at the annual meeting of an important farmer cooperative in Iowa by Mrs. Lawrence Everett, the mother of five. She said, "Let's help keep farm cooperatives in the forefront of a free, creative American agriculture, and let's give the feminine side some worthwhile tasks in this effort." Mrs. Everett is a crusader and she firmly believes that "farm cooperatives hold the greatest potential for independence of farmers as an economic and cultural group." Mrs. Everett holds that every farm is a partnership and she is determined not to be a silent partner.

In a recent letter Mrs. L. W. Everett told me how women respond to her views. She says the most common reaction is this:

> "I've always been curious about the business side of agriculture, but I didn't have the courage to speak up, to ask questions for fear the men would think it was none of my business."

Other common reactions are:

> "I've been so busy being a mother that I forgot that I also am a farmer's wife and a partner in our business."

> "I had no idea there were so many things that I could actually do to improve our cooperative. I thought only men were important in the business."

Mrs. Everett went on to give me some good advice for this talk, and I am going to pass it on to you. She said:

> "It's been my experience that women really want to understand the economics of agriculture but aren't sure they can. Anything you can do or say that encourages them to read widely on the subject, that prods them to be a part of farm business activities, that helps them locate understandable sources of information, will be beneficial to women whether they are American or otherwise."

Mrs. Everett, I am doing my best to follow your good advice.

Recently, I attended a State cooperative conference in Georgia where four women presented their views on how women could help make existing farm cooperatives more successful. I was impressed with the earnestness and competence of these women. They were anxious to have greater opportunities to use their special talents to improve cooperative performance. These women were not impractical. They recognized that a cooperative is a business and not a social club. They simply pointed out many ways in which a woman's touch could help improve cooperative business efficiency while providing greater satisfactions in the services rendered. For one thing, they thought that the housekeeping of many cooperatives could be improved so that it would be more pleasant to deal with a cooperative place of business.

In my talk yesterday on Education for Cooperation I referred to the very fine women's programs developed by two of our major American cooperatives--the Home Service Department of the Dairymen's League which has functioned effectively since 1925, and the Farm Home Service Department of the Southern States Cooperative which now has had twenty years of experience. I cannot speak too highly of these two programs for they demonstrate how programs of this kind can be fashioned to enlist the interest and support of women in farm cooperative organizations. I wish that Miss Helen Smith and Miss Mattie Kessler, the women in charge of these programs, could be here to tell you how these programs work, but in their absence I'll be glad to tell you more about them in the panel discussions.

The women's programs of the National and State Rural Electric Cooperative Associations have also given women a vital role to play in rural electric cooperatives throughout the United States.

In many parts of the world credit unions or credit cooperatives are important forms of agricultural cooperation. They help people save and expand their resources and understand the principles of cooperation. Many other forms of cooperative activity have grown out of the success of such credit cooperatives. One of the most successful credit unions that we have in the United States is the Hereford Texas Federal Credit Union, which is managed by a very dynamic woman--Mrs. Dyalthia Benson. In a talk a few years ago she said:

> "By pooling our resources and working together we have helped ourselves and our neighbors; we have built in ourselves a degree of financial security through our credit union, unattainable in my opinion, in any other way. The history of our program is irrefutable evidence that any group of people can do as we have done--provided they have faith in themselves and the will to work together." (American Cooperation, 1960)

When I was preparing for this talk I wrote to Mrs. Benson and asked her this question: "Why should women have a place in cooperatives?" She replied: "Because women need to be concerned about finances. Most of them want to have new appliances, up-to-date homes, and new cars." Mrs. Benson maintains that women have their own logic, and she illustrated this with a story that you might enjoy, for up to this point there hasn't been much humor in this talk. Now for the story:

> Adam and Eve were busily naming the animals in the Garden of Eden when a hippopotamus walked by.
>
> "What shall we call the beast?" asked Adam.
>
> "Let's call him a hippopotamus," suggested Eve.
>
> "Now, why in the world would you want to call him that?" returned Adam.
>
> "Well," said Eve reflectively, "he looks more like a hippopotamus than anything we have seen."

As a well-married man, this seems like powerful logic to me.

I am aware that our experience in the United States may be quite different from that of some other countries but in the main it seems to me that we are all moving in the same direction--toward greater recognition of women in the work of cooperatives.

In preparing for this talk I endeavored to find out what rural women in various countries were doing cooperatively. I have been encouraged by what I have found, for there is a great deal of cooperative activity by women in one form or another in many countries. In some countries it is working together to gain educational or other opportunities. In other countries women are actively conducting or participating in cooperative business activities. I would like to see a full research project carried on to determine the extent and character of women's cooperative activities throughout the world, and the opportunities for expansion of their contributions to cooperative advancement.

There is much evidence in newly emerging countries to show that women are gaining an increasingly important place in cooperative advancement. This may be a slow process in its early stages but it can quickly gain momentum with technical assistance from various kinds of international agencies--governmental or private.

For example, I have been greatly impressed by reports of the Women's Education and Home Development Program now operating in Comilla, East Pakistan. This program covers work in general education, sewing, home sanitation, child care, first aid, poultry, handicrafts, etc. It promises to gradually "emancipate" women so that they can help strengthen the cooperatives which are an integral part of the interesting program for rural development being carried on in that country.

In Anand, Amul, India, women are taking an active part in the Kaira District Milk Producers' Union, Ltd., where buffalos provide all of the milk. As the womenfolk in the villages maintain and look after the buffalos it is necessary that women should be educated for the introduction of scientific practices of animal husbandry to improve the efficiency of milk production. A lady extension officer has been engaged and she holds meetings of women in large and small groups of villages to improve animal husbandry and carry on cooperative educational work. This extension work is giving encouraging results.

So far, I have given little attention to the important role that women play in consumers' cooperation in many countries of the world. Although consumers' cooperation is most highly developed in urbanized areas, it is likewise important in rural areas and especially in developing countries. It is significant that the International Cooperative Alliance, with the support of the International Cooperative Women's Guild, has recently set up a department to deal with women cooperators' special interests. Attention will be given to "promoting the active interest and participation of women in every aspect of cooperative activity." One subject of particular interest is "informative labeling" to ensure that buyers receive the quality and amount of products advertised. I realize that the members of the A.C.W.W. will be sympathetic to work along this line.

Time does not permit me to say more, although I am sure that there is something important to say for all of the countries that you represent, or you would not be attending this symposium. So I will close with one final paragraph.

I like to think of women as a force for cooperative advancement that has not yet been fully utilized. In this age of missiles we know that rockets are sent into the sky and then propelled further by booster shots of reserve energy. Cooperatives have this reserve of energy in the desire of women to help--if they will make use of it. And rural women should not be passive in making this reserve of energy available to cooperatives for they have as much at stake as men--the prosperity and happiness of farm living.

Thank you.